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ABSTRACT

There are three main parts to this report of a study that used case studies to showcase the different approaches used to encourage more continuing training within small and medium-sized enterprises (SMEs) across the European Union (EU). Section 1 discusses the importance of funding training in SMEs and highlights the various types of funding available. The second section explains how various schemes work in Europe, using case studies from Belgium, Finland, France, Great Britain, Ireland, the Netherlands, Portugal, Spain, and Sweden. Section 3 discusses the case studies in terms of their characteristics and indicators of effectiveness. Conclusions on the effectiveness of funding strategies include the following: (1) there is a need to use one-stop training centers; (2) the smallest enterprises are often the most effective in training; (3) flexibility is key to many of the strategies in terms of prioritizing support for small and very small enterprises; (4) the success of a training effort depends on its promotion; and (5) application and registration procedures should be as simple as possible. (Contains 85 references.) (KC)

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Funding continuing training in small and medium-sized enterprises

Discussion and case studies
from across the EU

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and medium-sized enterprises
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Tommi Pukkinen
Clemens Romijn
Sarah Elson-Rogers

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Foreword

Small and medium-sized enterprises (SMEs) form a significant part of all EU Member State economies. Growing recognition of their importance has led to the introduction of a number of measures at both EU and Member State level to harness and improve their competitiveness. One area that has gained attention is their ability to provide and participate in continuing training. In the European Commission's white paper *Growth, competitiveness and employment: the challenges and ways forward into the 21st century* (1993), Member States were encouraged to give 'particular attention...to the continuing training of staff in small and medium-sized enterprises' (p. 138). This study focuses on the different measures that have been introduced within Member States and how they are financed.

This report is divided into three main parts. The first outlines some potential reasons why funding policies to support training might be targeted at SMEs. It draws on the results of the first continuing vocational training survey (CVTS) (European Commission, 1999), *Key data information* (European Commission et al., 1997) as well as on observation, discussion and research from national studies. The second part of the report presents a variety of case studies from across the EU. The original aim of the case study section was to highlight policies specifically linking funding mechanisms to continuing training activities in SMEs. As the project progressed, however, it became apparent that the various policies had different perspectives on 'training'; in some cases, training was linked to broader business and/or social objectives. In other words, the objectives of the schemes varied as did the reasons why SMEs, in particular, are considered to require support. The case studies purposely try to cover the widest possible number of approaches. Where available, each case includes findings from nationally-based evaluations. The third part summarises and discusses the information contained within the cases in Section 2 and draws together some conclusions on factors influencing their effectiveness. It concludes with some suggestions on how to further research into some of the issues raised.

As the case study section presents information on a wide range of policies, many organisations from across the EU have been involved in providing and/or recommending information as well as in reviewing the cases. We would especially like to thank the members of the European network for SME research (ENSR) for their contributions. A full list of experts and organisations consulted in this report follows.

Cedefop will publish in 2001 *Internationalisation and changing skills needs in European small firms. Synthesis report*, dealing with broader issues of SME training needs.

Cedefop has published other discussion reports on specific issues related to the financing of vocational education and training (VET). Each report is designed to provide a theoretical overview with examples of implementation. They include:

- *Output related funding in vocational education and training: a discussion paper and case studies;*

- *Human resource accounting: interests and conflicts. A discussion paper;*
- *Demand-side financing - a focus on vouchers in post-compulsory education and training: discussion paper and case studies;*
- *Transforming the public provision of training: reorganisation or privatisation? Long-term changes in Sweden and the Netherlands.*

Other Cedefop work on VET funding includes a series of ‘financing portraits’, one for each EU Member State. All of these reports can be obtained from Cedefop.

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Preface by the authors

Developments in economic policies at EU level to increase competitiveness have required close scrutiny of the make-up of the European economy and the effects of public regulation. Given that each Member State's economy is dominated in numerical terms by small and medium-sized enterprises (SMEs) and that they generate a large share of employment, there has been an increasing discussion on their potential economic role. A number of measures at EU and Member State levels have been introduced to ensure that they are fostered as an economic driving force. These have included, amongst others, schemes enabling SMEs to gain easier access to capital and measures to reduce the disproportionate administrative burden on SMEs.

One particular policy area, which has gained momentum over the last two decades, concerns the issue of increasing investment in continuing training at enterprise level in order to meet the challenges of, *inter alia*, globalisation (coupled with the need to be competitive) and fast technological advances ⁽¹⁾. Changes in production methods and the corresponding need for better and/or different workforce skills and increased flexibility provide a powerful rationale for ensuring that employees are continuously trained both to update existing, and to gain new, skills. The importance of training in enterprises, generally, is being emphasised within all Member States and at EU level. At EU level, discussion has focused on two key concepts: *lifelong learning* and *employability*. Regarding lifelong learning, the EU has defined as the overall objective for each country the aim to 'guarantee universal and continuing access to learning' (*Memorandum on Lifelong learning*, SEC(2000) 1832, p. 4). The notion of employability is linked to training insofar as the acquisition and updating of appropriate skills can enhance the ability of individuals to obtain/retain employment and take an active part in society.

Focus and structure of this report

The main focus of this report is to consider and discuss the reasons why specific funding schemes have been implemented to encourage more continuing training within SMEs. It provides a number of case study examples and discusses the different approaches used. The report consists of three main parts:

Section 1 discusses the following issues:

- evidence that SMEs are the major driving force behind most European economies in terms of employment and numbers of enterprises;
- research indicating the correlation between investing in continuing vocational training and the realisation of a number of benefits at the individual, enterprise and macro-economic levels;
- empirical findings comparing the training activities of SMEs with larger enterprises;

⁽¹⁾ For more detail, see Hassid, J. *Internationalisation and changing skills needs in European small firms. Synthesis report*. (To be published in 2001). (Cedefop Reference series)

- studies on the reasons why SMEs provide and participate in less training;
- an overview of the rationales underpinning certain funding mechanisms.

Section 2 presents a number of case studies including:

- Belgium, Wallonia region: the training voucher scheme;
- Finland: regional employment and economic development centres (*TE-keskus*) and the business development loan;
- France: financing continuing training through enterprise levies; agreements for the development of vocational training; assistance to replace a worker participating in training.
- Great Britain: Small firms training loans;
- Ireland: the training support scheme;
- The Netherlands: stimulating training in SMEs in the Netherlands, the sectoral approach: a case-study of the metalworking sector;
- Portugal: employment/training rotation;
- Spain: Basque agreement for continuing training;
- Sweden: growth potential Objective 4.

The case studies are presented in terms of the rationale for the individual policy and how it operates; they include any available evaluations of the effectiveness of the policy.

Section 3 discusses the case studies in terms of their characteristics and indicators of effectiveness. This section draws together and concludes a number of points raised in Sections 1 and 2.

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Executive summary

Small and medium-sized enterprises (SMEs) are important in all EU economies by sheer numbers, employment share and growth potential. However, there is some concern at EU and Member State levels that they are not able to compete fairly with large enterprises. Therefore, policies have been introduced to support them. This study focuses on funding measures introduced to improve SME training levels.

It analyses potential reasons funding policies to support training have been or might be targeted at SMEs, and presents various case studies across the EU. It compares and discusses these measures, drawing some conclusions on factors influencing their effectiveness. Results are based on a synthesis of SME-expert consultations throughout the EU and a literature review.

1. Rationales for supporting CVT in SMEs

According to statistics and surveys, SMEs participate in much less (formal) training than their larger counterparts, showed by share of enterprises offering training to employees, participation rates in training courses and spending on training as a percentage of labour costs. But, the smaller the enterprise, the less likely it is that CVT is provided to employees. Yet training can offer several benefits to enterprises, individuals and the economy. At enterprise level, for example, there is evidence that investment in training impacts positively on, among other things, company productivity, profitability and product/service quality. Training which improves enterprise and individual competitiveness and competence creates better chances for long-term survival. In the long term, support to encourage CVT in SMEs may lead to economic growth and further employment. Therefore, the reasons SMEs train less must be explored.

Many studies cite obstacles which hinder SMEs' access to training, such as: unfamiliarity with, or resistance to, training; lack of resources to plan training or find the right training options; and lack of internal funds for training or lack of access to external funds. For example, there may be a fear for SMEs that investing in training for their employees could lead to poaching by other firms. Employers may also be unwilling to invest because the positive effects of training may only be realised in the long term. One rationale for funding policy might be to encourage SMEs to take part in training temporarily, by helping them to understand and realise the benefits of unprompted training.

When SMEs lack resources or are unable to plan for training and find suitable training services, they could be granted direct subsidies for planning training or be offered indirect subsidies in the form of information and guidance support. For example, SME employers could receive support for management training, which could underline the importance of human resource management and development.

SMEs willing to take part in training and aware of different training options may still lack internal funds for training or access to external funds. Therefore, another rationale for policy may be to reduce the costs of taking part in suitable training, either direct or indirect costs of training, such as loss of production time when an employee attends a training programme. Another policy response is to provide incentives on the supply side, to encourage training suppliers to tailor courses to the specific needs of SMEs.

In practice, there may be several rationales for introducing a certain funding scheme. One may achieve multiple goals: certain may combine creating funds for training with general business development; others may combine support of SMEs' training planning with funding for training. The case studies presented in Section 2 provide further insights which are discussed in more detail below.

2. A great variety of funding sources and mechanisms are available for organising and carrying out measures

Public sources include government funding, carried out at national, regional and local levels. EU funding is available for national programmes which meet EU objectives. Private sources include banks, venture capital markets, social partner organisations, and SMEs themselves. Linked to the funding source is the funding mechanism introduced and its legal status. Subsidies, loans and grants are examples of voluntary funding mechanisms; contributions through levies to training funds may be compulsory for enterprises. Funding mechanisms may be designed to target the demand (SMEs) or supply side (training providers) of the training market.

Funding measures may be designed specifically for SMEs or included within general funding schemes for training targeted at all enterprises. SME-specific measures can be combined with other policy aims such as active employment policies: e.g., in return for an SME to receive support for continuing training for its employees, it agrees to accept an unemployed replacement worker (as is the case with job rotation schemes). Training can also be part of a broader strategy related to SME development. For example, funding for training could be linked to technological development, product/service improvement or help SMEs to innovate. If training is part of the measures needed for comprehensive development, then separate funding schemes may not be necessary, since one scheme may support wider aims.

3. The case studies show that various measures are available

Section 2 presents 12 case studies on helping SMEs with their investment in continuing training, from nine EU countries (Belgium, Finland, France, Great Britain, Ireland, the Netherlands, Portugal, Spain and Sweden). They are representative of different approaches rather than exhaustive of the variety of schemes that often coexist within countries. One fundamental point illustrated by the case studies is the newness of many schemes, as seen in the table below.

Scheme	Year	Main aims (others)
Wallonia voucher scheme (Belgium)	1998	Stimulate SME investment in training. (Encourage training for industrial workers.)
EEDCs (Finland)	1997	Combine various services in one place. One service is to support training in SMEs.
Business development loan - BDL (Finland)	1971	Support SME competitiveness (including training) through development projects.
Enterprise levies (France)	1971	Ensure investment in continuing training by all enterprises. Special arrangements for SMEs.
<i>Engagement de développement de la formation</i> - EDDF (France)	1984	Help enterprises adapt their employees to changing skills needs.
<i>Aide au remplacement d'un salarié en formation</i> (France)	1991	Support training in SMEs. (Also, help employees take advantage of individual training leave opportunities.)
Small firms training loans - SFTL (Great Britain)	1994	Stimulate SME investment in training by overcoming capital market imperfections.
Training support scheme - TSS (Ireland)	1990	Support SME competitiveness by improving employee skills. (Certain training is prioritised.)
Metalworking sector (The Netherlands)	1985	Encourage training through a training fund. (Priority for specific groups, e.g. female employees.)
<i>Medida rotação emprego/ formação</i> (Portugal)	1999	Support SME participation in training and improve employability by offering unemployed people an opportunity to gain workplace experience. For SME employees, priority for those with no professional qualifications.
Basque agreement for continuing training (Spain)	1995	Foster training within enterprises and employees in the Basque region.
Growth potential Objective 4 (Sweden)	1996	Support SME competitiveness through improving employee skills. (Focus on those with low/outdated education/ training.)

Many schemes try to overcome simultaneously various obstacles to training in SMEs. SMEs reluctant to invest in training are unlikely to plan training and seek training options or earmark internal, or look for external, funding. The Wallonia voucher scheme uses a financial incentive to encourage SMEs to take part in training, trying to overcome both disinterest among SMEs and their potential lack of funds. Further, to control the quality of training, the Belgian scheme includes accreditation of potential training providers and provides SMEs with guidance in finding a suitable training provider.

Most schemes link planning training needs with eligibility for funding, although there is a slightly different emphasis. Many schemes incorporate planning with the availability of funding on the assumption the SME has identified its own training needs but lacks access to funding (e.g., French *Engagement de développement de la formation* - EDDF; Irish TSS). Others fund planning as a first step to realising there is a need for training within the enterprise, before funds to support training costs are provided (e.g., growth potential Objective 4, Sweden).

The case studies also provide examples of measures which combine training with wider social aims or view training as part of an SME's comprehensive technological development (e.g., Finnish BDL). Some aim at improving individuals' chances for future employment and

financial wellbeing. The Portuguese *medida rotação emprego/formação* scheme and France's *aide au remplacement d'un salarié en formation* combine support for training in SMEs with employment policy. Many other schemes contain certain priorities to encourage equal opportunities, e.g., gender equality in the Swedish growth potential Objective 4, or target groups in most need of training such as lower-skilled people, in the Belgian Wallonia voucher scheme.

Funding schemes may target all enterprises with specific SME priorities or only certain size groups. Some cases target only small enterprises with less than 50 employees (e.g., British SFTL and Wallonia voucher scheme). This seems viable, as much information on training patterns in different size categories shows the smallest enterprises participate least in training.

The case studies present various types of funding: subsidies or grants; levy schemes and loans. In addition, measures can be funded through several sources. The most common funding is national, although regional authorities and EU funding are represented. Of particular interest is the complex issue of cofunding. According to the cases presented, typical funding is joint action between public authorities and applicant enterprises. Occasionally, as in the Dutch metalworking sector and French levy schemes, cofunding is enterprise/enterprise.

The subsidy varies substantially among measures. For example, the British SFTL is cofunded by the State to the extent of the interest costs during the holiday period, whereas the subsidy levels of the Irish TSS and the Finnish EEDC scheme are about 50%. Further, the subsidy is based on many different criteria: the Irish TSS favours smaller enterprises; the Finnish EEDC scheme is based on enterprises' ability to pay; the Wallonia voucher scheme, the French *aide au remplacement d'un salarié en formation* and the Portuguese *medida rotação emprego/formação*, in turn, are based on average training and/or wage costs.

Most schemes presented in the report include many rules on eligibility and application procedure. All the schemes refer mainly to external formal training, i.e. courses provided by various training organisations. Some measures also include internal training courses: the SFTL in Britain and enterprise levies in France. Some attach other conditions to the training eligible for support; for example, training undertaken through the Finnish BDL must be tied to a development project outside the normal operations of the enterprise. In the French *aide au remplacement d'un salarié en formation* and EDDF, as well as the Portuguese *medida rotação emprego/formação*, there is a set minimum duration for training.

4. Effectiveness of different funding schemes for the funding body

The case studies show that flexible measures are those most successful. Given the need to ensure efficiency within public funding, important for the schemes' effectiveness are deadweight, displacement effects and administrative costs.

There is some evidence to suggest the SME sector should be divided into smaller segments, since the potential for available funding merely replacing what SMEs are willing to pay for

themselves (deadweight) is lowest when the smallest enterprises are targeted. In particular, enterprises with fewer than 20 or 10 employees may be in need of careful attention. Some schemes try to minimise deadweight by setting eligibility criteria which favour smaller enterprises (Irish TSS in particular).

Another way to reduce deadweight might be to organise funding schemes according to sector, taking each sector's particular features and needs into consideration. Only one of the schemes examined within this report is a sectoral measure: the Dutch metalworking scheme. The French EDDF scheme has a sectoral orientation, the Irish TSS aims at certain sectors (although widely defined) and the Swedish growth potential Objective 4 scheme has a stated priority for small public health and welfare organisations. It could be argued, however, that if publicly funded schemes targeted specific sectors, they could cause substitution effect, that is, harm enterprises working in other sectors but fulfilling similar needs.

A third way to increase flexibility and reduce deadweight might be to have local/regional organisational arrangements that can deal with territorial needs. Local viewpoint was a specific aim of the Swedish growth potential Objective 4 scheme, and according to the evaluation, an active regional partnership was achieved. The Finnish EEDC, the Basque Hobetuz and the Wallonia voucher schemes are examples of regional measures.

The issue of displacement, however, may be of some concern within regional schemes, as neither enterprises nor customers necessarily run solely within their area/region. The Wallonia scheme targets SMEs in the French-speaking area liable to VAT. This has raised some criticisms from non-profit-making organisations, from SMEs in the German-speaking part of the region and from training providers outside the region wishing to be accredited to deliver training under the scheme.

A scheme which is adaptable according to enterprise size, sector and region, is the Finnish EEDC: subsidies are higher for smaller enterprises; it is organised regionally; and it can be tailored to the training needs of specific sectors. The French EDDF is another example of this combination.

According to the case studies, administrative costs of organising measures to improve SMEs' access to CVT might be reduced through a coherent structure. The Basque Hobetuz overlaps with the national scheme run by Forcem, causing double work. And, in the British SFTL, criticisms were made of the number of administrative bodies involved in schemes for small enterprises; since the evaluation, a small business service (a one-stop shop for advice) has been established.

Information and publicity expenses are other administrative costs. The case studies show the success of any scheme depends on its promotion and provision of information and advice. In the British SFTL, administrative costs were low, although the low level of take-up was reported as being at least partly due to the low level of promotion. Similarly, the Finnish

EEDC scheme showed there was little awareness of the available services among enterprises. The Irish TSS allocated a fairly high proportion of the budget to marketing and publicity.

5. Effectiveness of different funding schemes for SMEs

The effectiveness of any scheme for an SME can be evaluated according to its ability to address market failure(s) faced by SMEs in gaining access to training. The case studies show there is a need to address more than one obstacle/market failure through one scheme. For example, the Dutch scheme registers that training experience within the smallest enterprises is still below average. It argues this is because small enterprises face problems in organising work so employees can be released from the workplace for training sessions. Another reason for low training experience is lack of funds for training. Thus, two market failures occur at the same time. The Basque agreement for continuing training and the Finnish BDL offer another perspective: the schemes do not help enterprises enough in identifying their training needs.

A measure effective in reducing one market failure may be less effective in lowering others. The fear of poaching can justify levy systems, whether they run on a national (e.g., the French levy scheme), regional (e.g., Basque Hobetuz) or sectoral basis. However, the French levy scheme, designed from the larger enterprise's viewpoint and concentrating on formal training, has not been successful in activating the smallest enterprises (less than 10 employees), which need informal, on-the-job training.

A measure may successfully pinpoint market failures, yet not be attractive to SMEs because of its administration and conditions. Based on the evidence of the case studies, the simpler and more objective the application and regulation procedure, the higher the take-up rates. The Wallonia voucher scheme is specifically designed to make the application process as simple as possible for participating SMEs.

The case studies show that funding schemes may include various wider social aims, for example, more general employment or educational policy. There may be a risk of alienating SMEs from funding schemes by focusing too much on these other objectives, which could also impact negatively on take-up rates and cost-effectiveness. To capture and keep an enterprise's interest, measures should have some concrete and quickly realisable benefits to the applicant.

The funding available may not be tempting enough to raise interest among some enterprises. In one of the evaluative studies, a survey showed that lack of subsidies and/or grants inhibited taking part in the British SFTL scheme. Participation rates in the other loans scheme examined here (Finnish BDL) were also on the decline. No evaluation has rigorously examined why, although introducing substitute policies has had an impact. It is possible to speculate on several other reasons loans may not be attractive, including whether SMEs are willing to pay the market price for training and whether a loans scheme can adequately

compensate them for the funding obstacles to investing in training compared with larger enterprises.

The success of any funding scheme should eventually be assessed in terms of its ability to foster sustained use of training within SMEs. As simple as this may sound, it is a difficult task to handle in practice, not least because it needs a longitudinal study on SMEs' training. Within the case studies, information on the schemes' ability to encourage SMEs to consider training a regular part of their business is rare. However, in many of the case studies, the funding scheme has succeeded in increasing enterprises' training provision at least for as long as there has been funding available. The Irish TSS was effective, particularly for small enterprises with fewer than 20 employees. The Dutch metalworking scheme of collective sectoral funds has been effective because the number of subsidised training days has increased dramatically over the past 10 years. In addition, evaluations of some schemes (the Swedish scheme and the Finnish EEDC) show that enterprises have at least taken positive steps, i.e. the attitudes of employers and employees have become more favourable towards training.

6. Conclusions

Much of the research on returns to training relates to all enterprises rather than to SMEs as a specific group. Further, the rationales for targeting SMEs as a specific group are often based on observations of their training compared to larger enterprises and the assumption that they need the same training investment. Few studies, however, target analysing the costs and benefits of training for SMEs specifically. Within those studies available, one of the contradictory findings is a general lack of evidence that investment in continuing vocational training has anything to do with SMEs' survival rate or related measures.

The question why there is such a weak relationship is warranted here. In literature, most possible reasons relate to the failure of study design to cover adequately the many variables. One reason SMEs may not be benefiting from training (or may not be willing to train their employees) may lay in the type of training subsidised or supported. Although only a few of the cases presented refer to type of training, there is some evidence that SMEs may not be in need of formal training to the same extent as larger enterprises. Instead, SMEs may find informal training more fitting to their purposes. For example, according to evaluative studies on the French levy scheme, very small enterprises treat the levy scheme like a tax, i.e., they pay their contribution but do not invest in training, since they feel the best way to learn is through 'doing'.

To shift emphasis from formal to informal training within funding schemes would not, however, be without problems. Firstly, it is not always easy to distinguish between the two. A further difficulty is the design of equitable measures, which underpin the principle of financial probity in granting funds. The easiest way to allocate funds is based on a tangible outcome: for example, a qualification, attendance at an external course, etc. To link funds to internal, informal types of training may require more monitoring of how funds are spent, which will increase the administrative burden and other non-grant costs.

Nevertheless, several evaluative surveys of the cases show that SMEs, however defined, have accrued benefits from taking part in the various schemes. These benefits have ranged from increased staff motivation to increased productivity, turnover and employment level (e.g., British SFTL, French EDDF and Swedish growth potential Objective 4 scheme).

Systematic studies are crucial tools for evaluating the measures and identifying more precisely their effectiveness and their faults. Further research into the returns to different types and forms of enterprise training within SMEs, specifically at the enterprise and individual levels, is needed to clarify the relative importance of training compared to other factors in SME development. In addition, given the numerical domination of SMEs within all EU economies and their importance for employment, more research into their economic impact could clarify how they should be supported. For example, it may be the prime reason to promote training within SMEs is to ensure that individuals are not at a labour market disadvantage through SMEs' inability to offer general training in the same way that larger enterprises do. More coordinated and in-depth research could be of use to policy-makers in establishing funding responsibilities and designing programmes to foster SME development, especially within the smaller-sized categories.

1. Funding training in SMEs: perspectives

1.1. The significance of SMEs within the EU

1.1.1. Definition of SMEs

Until April 1996, there was no definition at EU level of what constituted an SME. As a result each Member State had its own criteria, and their policies employed different definitions. With the introduction of the integrated programme for SMEs and the craft sector ⁽²⁾ in accordance with the European Commission's white paper *Growth, competitiveness and employment...* (1993), the Commission issued a recommendation ⁽³⁾ defining SMEs. It proposed standard criteria on what constitutes a 'small', 'medium' and 'very small' ⁽⁴⁾ enterprise. The purpose of having a standard EU definition was to 'reinforce the consistency and effectiveness of policies targeting SMEs (especially where cofinanced by the EU and Member States) and would, therefore, limit the risk of distortion of competition' ⁽⁵⁾. Each of the definitions contain the following criteria: 'number of persons employed, turnover, balance-sheet total and independence'.

Table 1 EU definitions of very small, small and medium-sized enterprises

Enterprise size	Very small	Small	Medium-sized
Max. no of employees	<10	<50	<250
Max. turnover (million ECU)	-	7	40
Max. balance sheet total (million ECU)	-	5	27

Source: Commission Recommendation 96/280/EC of 3 April 1996, concerning the definition of small and medium-sized enterprises. Official Journal L 107, 30.04.1996, p. 4-9.

To be classed as a medium, small or very small enterprise, an enterprise has to satisfy the criteria for the number of employees and one of the two financial criteria, i.e. either the total turnover or the balance sheet total. In addition, the SME must be independent. This means that when more than 25% of the capital is owned by another enterprise (or jointly by several enterprises), the company falls outside the definition of an SME.

Within policies for SMEs at Member State level, however, definitions vary. Size, in terms of employee numbers, is treated differently according to national criteria. Setting standard

⁽²⁾ *Integrated programme for small and medium-sized enterprises (SMEs) and the craft sector. The multiannual programme, concerted action and other community actions in support of SMEs.* Communication of the Commission, COM(96) 329, 1996.

⁽³⁾ Commission recommendation 96/280/EC of 3 April 1996, concerning the definition of small and medium-sized enterprises. Official Journal L107, 30.4.1996, p. 3.

⁽⁴⁾ When the definition for SMEs was adopted, the term 'micro'enterprise was used; this was later replaced by the term: 'very small' enterprises.

⁽⁵⁾ Commission recommendation 96/280/EC, p. 3.

criteria for what constitutes an SME is problematic due, in part, to their heterogeneity: for example, there are many sector-specific differences (a service company with 200 employees is relatively large compared to a manufacturing company of the same size).

1.1.2. SMEs: facts and figures

Small and medium-sized enterprises form a cornerstone in the economy of the European Union in terms of both numbers and employment share. In 1996 there were approximately 18.5 million SMEs ⁽⁶⁾ in the EU, which accounts for 99.8% of all enterprises. This is reflected in every Member State (see Table 2). When analysing more closely the number of SMEs, it can be seen that the majority of enterprises are actually very small, employing less than 10 persons. The share of these very small enterprises in relation to all enterprises ranges from approximately 84% in Luxembourg to approximately 97% in Greece (ENSR, 1997).

Table 2 Total number and share of enterprises in EU Member States, 1996

	Very small (<10 employees)	Small (10-49 employees)	Medium-sized (50-249 employees)	Large (≥250 employees)	Total (000s)
EU average	93	5.9	0.9	0.2	18 590
Austria	86.1	10.8	2.4	0.6	220
Belgium	96.5	2.9	0.5	0.2	800
Denmark	92.4	6.3	1.1	0.2	230
Finland	94.4	4.5	0.9	0.2	205
France	92.9	5.8	1.1	0.2	2 085
Germany	88.1	10	1.5	0.4	3 440
Greece	97	2.6	0.4	0.1	580
Ireland	89.8	8	1.6	0.6	80
Italy	94.4	5.1	0.5	0.1	3 345
Luxembourg	84.2	12.4	3	0.4	15
The Netherlands	90.5	7.7	1.4	0.4	530
Portugal	93.8	5.3	0.9	0.1	690
Spain	94.9	4.4	0.6	0.1	2 335
Sweden	91	7.4	1.3	0.3	285
United Kingdom	94.5	4.7	0.7	0.2	3 760

Source: ENSR, 1997.

The significance of SMEs in the EU is also shown by their employment share. In 1996, very small, small and medium-sized enterprises employed an average of 66% of all employees in the EU. The differences between countries in this case are even clearer than in the case of the

⁽⁶⁾ This figure includes all non-primary enterprises in the EU, i.e. all private enterprises except those in agriculture, hunting, forestry, and fishing.

number of enterprises. The lowest share can be found in Ireland, where just under half (49%) of employees are working in SMEs. The role of SMEs is the most significant in this respect in Italy, where they provide jobs for 80% of all employees (ENSR 1997). An average enterprise in the EU provides jobs for 6 employees.

Table 3 Employment share in 1996 by size class in EU Member States

	Very small	Small	Medium	Large	Total
EU	33	19	14	34	100
Austria	25	19	21	35	100
Belgium	48	14	11	27	100
Denmark	30	22	18	30	100
Finland	23	16	17	44	100
France	32	19	15	34	100
Germany	24	20	14	43	100
Greece	47	18	14	21	100
Ireland	18	16	14	51	100
Italy	48	21	11	20	100
Luxembourg	19	26	29	29	100
The Netherlands	26	19	15	40	100
Portugal	38	23	18	21	100
Spain	47	19	12	21	100
Sweden	25	17	16	41	100
United Kingdom	31	16	12	41	100

Source: ENSR, 1997.

SMEs, and particularly very small enterprises, can be seen as a balancing force in the economy when unemployment increases. During the 1990s, employment remained almost constant in very small enterprises, whereas it decreased most in medium-sized and large enterprises (ENSR 1997).

According to 1996 statistics, average enterprise size varies among different sectors and subsectors. The extraction ⁽⁷⁾ sector has the largest average enterprise size with 33 employees. In the manufacturing sector, the typical enterprise employs 14 people. The transport/communication sector and the construction sector both employ on average less than 10 people (9 and 4 respectively). In the wholesale trade, retail distribution and services (both producer and personal) sectors, enterprises can also be classified as being very small, since the average sizes are below 10 employees (6, 4 and 5 respectively - ENSR 1997).

⁽⁷⁾ Extraction (incl. energy): Extraction of energy producing materials (mining of coal, lignite, peat as well as extraction of crude petroleum, natural gas), other extraction (mining of metal ores as well as other mining and quarrying) and electricity gas and water supply (electricity, gas, steam and hot water as well as collection, purification and distribution of water).

The role of SMEs' in EU economies can also be analysed from the perspective of export. On average, exports account for 15% of the total turnover of all enterprises (in Europe of 19⁽⁸⁾). For SMEs, this figure amounts to 10% and for large-scale enterprises (LSEs) to 20%. However, there are substantial differences between sectors. The propensity to export is highest in manufacturing, where the amount equals more than 30% of total turnover. In this sector, export is dominated by LSEs. The lowest export level can be found in construction and retail trade where only a small percentage of total turnover is sold abroad. SMEs share of total export exceeds that of LSEs in many sectors: for example, in 1996 this occurred in the extraction, wholesale trade as well as retail distribution sectors (ENSR 1997).

Given the importance of SMEs within all of the EU economies in terms of sheer numbers, employment share and growth potential, there has been some concern at the EU and Member State levels that they are not able to compete on a level playing field with large enterprises. Hence, a number of policies have been established to support them. At EU level, the communication of the Commission on an integrated programme for SMEs sets out the multiannual programme, concerted actions and other EU actions in support of SMEs. The communication states 'that European SMEs full potential for growth and employment creation has not been properly realised and that growth and job creation in SMEs has been inhibited by basic market and policy imperfections and failings which have not yet been adequately addressed' ⁽⁹⁾.

The communication outlines five areas of action, one is to 'enhance SME competitiveness and improve their access to...training' ⁽¹⁰⁾. As with all the action areas, the aims are stated in terms of concerted actions of the Member States, actions within other Community policies and actions through the multiannual SME programme 1997-2000. Some discussion on the potential importance of training for SMEs follows.

1.2. The importance of continuing training

1.2.1. Definition of continuing vocational training

Continuing vocational training (CVT) is, by definition, something that takes place after initial vocational training. It can be divided into various types. One basis for classification is whether training is aimed at generating new skills or improving existing ones. Drake and Germe (1995) identify four types of CVT:

- (a) *deferred initial training* is for individuals who prematurely discontinued their education and wish to reach qualifications similar to those associated with initial vocational training;

⁽⁸⁾ The EU countries plus Iceland, Liechtenstein, Norway and Switzerland.

⁽⁹⁾ European Commission. COM(96) 329, 10.7.1996, p. ii.

⁽¹⁰⁾ European Commission. COM(96) 329, 10.7.1996, p. vii – Concerted action IV.

- (b) *updating training* is to update individuals' skills to meet the present requirements of the occupation or job, for example when new technology is introduced;
- (c) *upgrading training* provides individuals with new skills, thus giving them possibility for career advancement;
- (d) *retraining* is where individuals are trained for a new job. This may occur when certain occupations are threatened, for example, in sectors undergoing structural changes.

CVT can be provided in a range of venues. External courses are designed and managed by a separate organisation, whereas internal courses are planned and organised by the company itself. CVT can also be divided into formal, non-formal and informal training. Formal training refers to training that is typically based on external courses, which are validated and lead to formal qualifications. Non-formal training includes 'planned and explicit approaches to learning introduced in work organisations' (for more information, see Bjørnåvold, 2000). Informal training in turn, is characterised by an informal conveying of work skills or knowledge from one employee to another, i.e. it can be described as 'learning by working'. (Westhead et al., 1997).

Continuing training is funded in a variety of ways. In every EU country, the State provides and/or funds some CVT often targeted at specific groups to enhance equity in access to training. Funding for CVT is frequently a combination of public support and/or enterprise as well as individual-based financing.

In this study CVT is defined as all training directed at employees in SMEs. Some training types have been excluded, such as entrepreneurial training (aimed at the establishment of new enterprises) and apprenticeship training including other types of work-based initial training.

1.2.2. Returns to education and training; continuing training in enterprises

Research findings suggest that investment in training, up to a certain level, is a crucial activity for enterprises, the individual and the macroeconomy, although the complexity of the relationship between human capital and economic performance at all levels requires that research be interpreted cautiously.

At the macroeconomic level, a number of studies have positively linked training to improvements in skills and productive capacity of the workforce, to increases in productivity and competitiveness and to increases in output and income throughout the economy (see for example: Becker, 1975). A consistent finding is that increases in economic output cannot be fully explained by increases in capital and quantitative labour inputs, a finding that has led to further exploration of possible residual factors ⁽¹⁾ among those tested is the importance of increasing the quality of the labour inputs, including the levels of human capital (Denison, 1979).

⁽¹⁾ For more information on endogenous growth theories, see McCallum, 1996. For more information on human capital reporting, see Westphalen, 2000.

A positive relationship has also been established between educational levels and aggregate productivity or economic growth (Barro, 1991; Mankiw, Romer and Weil, 1992). Some research, however, seems to indicate that the relationship between training and economic growth might be more complex. For example, Walsh (1993) was not able to confirm a positive relationship between investment in human capital and better economic growth performance in Ireland. Furthermore, research seems to indicate that certain circumstances are more conducive to capturing benefits from training than others. Psacharopoulos (1994) finds that after a certain point, the returns to education and training appear to decline. This finding is confirmed by research undertaken by EIM Consultancy (1995) using statistical data from the EU. This study showed that countries with comparatively low rates of CVT participation (e.g. Belgium, Italy) perform equally well as those countries with higher rates (e.g. the Netherlands, Denmark). EIM concludes that there is an optimum level of CVT benefit, beyond which the working time lost to training neutralises any productivity gain.

At the enterprise level, most research indicates that there is a positive relationship between productivity and investment in training activities, using proxy measures such as the availability of a training budget and participation rates in training. For example, in a Finnish study, a correlation was identified in companies between an expanding number of employees and the availability of a training budget (Ylöstalo and Antila, 1999). In the same study, a relationship was demonstrated between the level of the training budget and the company growth rate. This was positive when training costs were lower than 2% of total salary costs, although the effect levelled off when the budget exceeded this percentage.

There are a number of other studies which link the incidence of enterprise training to outcomes such as profitability, output, productivity, product quality and staff turnover ⁽¹²⁾. While the benefits to training may decline above a certain level of investment, there is some evidence that the effects are compounded. For example, Lucas (1988) found that the concentration of highly skilled workers enhances productivity through the exchange of ideas and mutual learning.

Most existing research treats enterprises as a single, homogeneous group. Evidence on returns to investment in training in enterprises of different sizes is scarce; an issue that will be returned to in Section 3.

At the individual level, there is strong and consistent evidence that educational attainment and employment are closely related phenomena (OECD, 1994). There is also research indicating that training enhances individual wages and career prospects (e.g. Lynch, 1994). A multinational study conducted by OECD and Statistics Canada in 1995 ⁽¹³⁾ confirmed that there is a positive relationship between level of education and individual earnings. According to the study, people possessing a university level degree have, on average, 50% higher

⁽¹²⁾ Additional studies are explored in Barrett et al., 1998.

⁽¹³⁾ Cross-referenced in OECD (1997b).

earnings in comparison to those who have completed only upper secondary school. In addition, in terms of better earnings, women tend to benefit relatively more than men through having higher education qualifications. Another OECD report (1997b) also presented a positive relationship between participation in continuing education and training and individual earnings levels.

The study by OECD and Statistics Canada also indicated a negative correlation between education attainment levels and unemployment. The probability of unemployment is highest for people without, or with low level, qualifications. Furthermore, the study reported that one of the most important reasons why qualified people also have better chances in the employment market is that they have better skills and are more motivated to continue learning throughout their lives. The same study also indicated a positive relationship between participation in continuing education/training and rate of employment.

1.3. Continuing training in SMEs: facts and figures

The communication of the Commission on an integrated programme for SMEs highlights that an 'insufficient focus on training in SMEs' ⁽¹⁴⁾ is one of the barriers to the competitiveness of European SMEs. Thus, in view of the benefits training appears to have for the economy as a whole, for enterprises and for individual employees, it is assumed that SMEs are at an economic disadvantage through a lack of training when compared with larger companies. As with large enterprises, it is assumed that SMEs, through training, are more able to respond to environmental changes in order to survive and be competitive, furthering the prosperity of their employees and of the economy as a whole.

The tables below indicate what proportion of SMEs provide training compared to larger enterprises, what type of training they provide and participation rates of employees. The data are empirically based and identify training patterns within the existing policy frameworks, which may include a number of schemes to support training in smaller enterprises. The data below are also incomplete, as the training patterns in enterprises with less than 10 employees are not included; nevertheless some broad trends can be identified.

1.3.1. How much training do SMEs provide compared to larger enterprises?

Data on the amount of training, however defined, undertaken by SMEs appear to corroborate the Commission's concern. Workers in SMEs tend to have less training opportunities than workers in larger enterprises. The tables below illustrate this.

⁽¹⁴⁾ European Commission, COM(96) 329, 10.7.1996, p. 15.

Table 4 *Enterprises offering CVT, by enterprise size, EU-12, 1993*

	(%)					
Enterprise Size	10-49	50-99	100-249	250-499	500-999	1000+
% providing training	52.2	74.5	82.5	90	94.3	98.2

Source: European Commission et al., 1997, pp. 80-81.

The smaller the enterprise, the less likely it is that CVT is provided to employees, especially in enterprises with between 10 and 49 employees. This phenomenon is confirmed by an OECD study on adult training. The smaller the enterprise, the greater the share of self-financed training. In the largest-size groups, employers pay most of the training costs (OECD 1999).

1.3.2. How many employees participate in CVT?

Unsurprisingly, employees working in enterprises that provide training (irrespective of enterprise size), are more likely to participate in courses. The variation between the percentages is highest in smaller enterprises. Fewer SMEs provide CVT, and of those that do, a smaller percentage of employees participate, compared to larger enterprises.

Table 5 *Participation rates in CVT courses, by enterprise size (all enterprises and enterprises offering CVT courses), EU-12, 1993*

	(%)					
Enterprise size	10-49	50-99	100-249	250-499	500-999	1000+
All enterprises	13.2	18.5	23.6	30.5	35.4	43.5
Enterprises providing CVT	23.5	24.9	28.7	34	37.4	43.9

Source: European Commission et al., 1997, pp. 90-91.

1.3.3. What kind of CVT do SMEs tend to provide?

There is some evidence that the types and forms of training received by employees differ between SMEs and larger enterprises. Cosh, Duncan and Hughes (1998), in a study of investment in training in the UK, found that small enterprises were much less likely to provide formal training than larger enterprises. A Commission publication on continuing training in enterprises (European Commission, 1999, p. 21) indicates the different types of formal courses offered by enterprises according to size.

Table 6 *Enterprises offering different types of training, by enterprise size, EU-12, 1993*

(%)						
Enterprise size	10-49	50-99	100-249	250-499	500-999	1000+
Courses*	36	63	76	85	93	92
Training in work situation	34	50	58	69	74	85
Conferences, workshops, seminars	29	49	63	71	76	80
Job rotation, etc.	10	21	30	38	47	50
Self-learning	10	21	28	38	43	52

* Both external and internal courses (see Table 7 for a breakdown).

Source: European Commission, 1999, p. 21.

As with the previous tables, all types of training activity increase with enterprise size. Of those enterprises that offer *courses* to their employees, the balance between external and internal provision can be seen in Table 7.

Table 7 *Enterprises which offer courses, by type offered, EU-12, 1993*

(%)						
Enterprise size	10-49	50-99	100-249	250-499	500-999	1000+
External courses	91	93	95	96	96	94
Internal courses	47	59	69	82	88	94

Source: European Commission, 1999, p. 22.

Of those enterprises offering training courses (taking into account the information in Table 6 showing that smaller enterprises provide fewer training courses than larger enterprises), the balance between external and internal courses varies according to enterprise size. In larger enterprises, there is a close to equal balance between the availability of external and internal courses. In small enterprises, with 10 to 49 employees and 50 to 99 employees, external courses are clearly favoured. One of the reasons given is that fewer smaller enterprises have the resources (and also perhaps the skills) to plan and manage internal courses, and since the number of participants may be low, few economies of scale can be achieved (European Commission, 1999).

1.3.4. What type of training do SME employees tend to participate in?

Employee participation rates in various training activities offered by enterprises of various sizes are shown in the following table.

Table 8 *Employee participation rates in enterprises offering various types of training, according to training type, EU-12, 1993*

	(%)					
Enterprise size	10-49	50-99	100-249	250-499	500-999	1000+
Courses*	36	33	37	44	46	49
Training in work situation	45	42	40	40	39	44
Conferences, workshops, seminars	23	14	15	15	15	12
Job rotation, etc.	28	15	14	11	12	13
Self-learning	24	10	10	7	8	11

* Both external and internal courses.

Source: European Commission, 1999, p. 23.

Again, the rate of participation in different types of training varies according to enterprise size. Employees in larger enterprises tend to participate more actively in training courses (either internal or external) than those in smaller enterprises. In the smallest enterprise size group (10 to 49 employees), the rate of participation in the different types of training is more evenly balanced. Furthermore, when considering newer types of training activity (such as job rotation), the participation rates are inversely related to enterprise size; i.e., the smaller the enterprise, the more participation in this type of training activity. This may merely reflect the design of a particular policy; e.g. job rotation schemes may be targeted at smaller enterprises. While fewer smaller enterprises offer many of the forms of training indicated in this table, when they do offer them, more employees participate in percentage terms than in larger enterprises.

1.3.5. SMEs' investment in continuing training compared to larger enterprises

According to the results of the CVT survey (European Commission, 1999, p. 50), enterprises spend the following percentage of their labour costs on training:

Table 9 *Training costs as a percentage of labour costs, by enterprise size, EU-12, 1993*

Enterprise size	10-49	50-99	100-249	250-499	500-999	1000+	Average (EU-12)
Training costs (% labour costs)	0.8	1.0	1.1	1.4	1.7	2.3	1.6
Training costs/trainee (PPS)	1 281	1 254	1 166	1 232	1 380	1 585	1 420

Source: European Commission, 1999.

The smaller the enterprise, the lower the percentage of expenditure for training as a proportion of labour costs. The training costs per trainee, however, do not follow the expected trend. The continuing vocational training survey indicates that training costs per participant were highest in the smallest enterprises of four of the twelve countries (Portugal, Ireland, the

Netherlands and the United Kingdom), whereas they were highest for larger enterprises in Denmark, Germany and France. The survey explains that these results are partly due to different institutional arrangements and special funding schemes whereby smaller enterprises can gain access to less expensive external training (some of these schemes are described in Section 2 of this report).

1.3.6. Proportion of SMEs with a training plan and training budget

Among those enterprises offering training to their employees, larger enterprises are more likely than smaller enterprises to have a specific budgetary allocation for training purposes as well as a training plan.

Table 10 Enterprises with training plans and/or budgets, by enterprise size, 1993

Enterprise size	Enterprises offering training (%)			
	Training plan only	Training budget only	Training plan and budget	Training plan and/or budget
10-49	15	8	11	34
50-99	14	11	33	57
100-249	13	13	47	74
250-499	8	12	54	74
500-999	7	12	71	90
1000+	14	10	64	87
Total (EU-10)	14	9	20	43

NB: EU-12 excluding Germany and the Netherlands.

Source: European Commission, 1999.

The lower likelihood that SMEs already providing training have a training plan and/or training budget could be interpreted in a number of ways: for example, that other funding sources are available and/or that SMEs tend to provide training on an *ad hoc* basis. This latter point may reflect that SMEs offer training to their employees on a problem-oriented basis rather than anticipate need. Furthermore, organisational differences between large and small enterprises, whereby smaller enterprises may not be so hierarchically structured and where formal planning is less necessary to run the business, may also be important factors.

1.3.7. Summary

To sum up the evidence presented above:

- SMEs appear to engage less in training than larger enterprises;
- SMEs that do engage in training appear to favour external courses to internal ones, when compared to larger enterprises;
- when SMEs engage in training, they are likely to follow more innovative approaches and, in such cases, show higher employee participation rates than larger enterprises;

- SMEs spend less on training as a proportion of their labour costs;
- a lower percentage of SMEs plan their training needs and training expenditure.

Making even broad conclusions such as these, however, is problematic. The generic nature of training and the diverse activities that can encompass a training element confounds empirical observation. What can be seen, however, is that SMEs provide and invest in less formal training than larger enterprises. The following text presents some evidence as to why this may be.

1.4. Why do SMEs tend to invest less in training than their larger counterparts?

Several studies have tried to pinpoint the obstacles which prevent SMEs from investing and participating more in training. A Cedefop report on access to training by SMEs (Gil et al., 1994) classified these obstacles as environmental factors (e.g. training culture or lack thereof), company factors (e.g. SME managers' negative attitude towards training) and training supply factors (e.g. lack of services to identify and meet SMEs' training needs). Part of the continuing vocational survey was also dedicated to examining why non-training enterprises in 1993 (most of which were small enterprises) did not pursue any training. Most respondents stated that their existing skills levels were satisfactory. Other major factors they cited included that personnel were too busy to attend training, that initial training was sufficient and that financing was difficult. A more detailed survey conducted among 840 enterprises in 11 EU countries identified the following barriers (IKEI, 1997).

Table 11 Main barriers to training for SMEs

Barriers (*)	Training activities		Total (all surveyed SMEs)
	SMEs which offer training	Non-training SMEs	
High costs of the courses	36.2	16.3	27.5
Problems of internal organisation of course attendance	33	15	25.1
Bad quality/unsuitability of the available courses	18.2	19.1	18.6
Lack of interest on the part of personnel	15	17.4	16.1
No needs of training	0	34.3	15
Difficulties to identify the training needs of the enterprise	15.4	13.4	14.5
Lack of information about available courses	8.2	13.4	10.5
Do not see any barriers	16.7	0	9.4
Lack of support by the government	8.2	7.9	8.1
Lack of interest on the part of the enterprise	2.7	12.5	7.0
Other	5.7	7.6	6.5
Company's fear of personnel being poached after training	3.2	1.1	2.3

(*) Percentage of enterprises mentioning each barrier. Multianswer (two main barriers).

Source: IKEI, 1997.

Other studies rank the relevance of these barriers differently. Nevertheless, subsuming these and other findings in the literature on circumstances that appear to negatively influence the implementation of CVT within SMEs, there appear to be three classes of stumbling blocks.

1.4.1. Unfamiliarity with the potential benefits of training or resistance to training

SMEs are often believed to be unaware of or unfamiliar with the benefits of training due to a lack of information. While it is difficult to judge if SMEs that see no training needs (the above table indicates that 34.3% of non-training SMEs did not see any need for training) base this on 'ignorance', 'resistance' or sound business judgement, research has confirmed that ignorance as well as resistance do play a role. For example, a study done by ITS (Van den Tillaert, 1997) indicates that of the 400 entrepreneurs within SMEs questioned, only 19% were aware of the potential benefits of investing in training and actually had training policies in place in their company; the study identifies the following:

- (a) most entrepreneurs are not sufficiently conscious of the dynamism in their environment and of the necessity to keep their company adapted and up-to-date;
- (b) employees in SMEs have insufficient interest in vocational training. Some connections were found between employee interest in training and personal characteristics such as age, educational level, gender, etc. It is also suggested that employees' reluctance to participate in training may be due to the lack of internal labour markets within SMEs (see also Table 11);
- (c) labour relations in SMEs between employers and employees might not be favourable enough for employees to be able to engage in training. In the ITS survey, a relatively large number of employees indicated that entrepreneurs of smaller enterprises underestimate their employees' need for further development of knowledge and skills and take it for granted that training is not necessary. Other surveys have shown that a number of SME entrepreneurs do not possess any formal qualifications and are often opposed to formal training as they associate this with school (Westhead et al., 1997; see also Céreq, 1998a).

The Cedefop study (Gil et al., 1994) also highlighted such obstacles as the 'negative attitude of SME managers towards traditional training' (p. 12). There may also be a fear that investing in training employees could lead to poaching by other firms, although, in Table 11 above, this was seen as a minor barrier to training. In addition, employers may be unwilling to provide training because the possible positive effects of these activities may only be realised in the long term, whereas owners are typically concerned with what happens in the immediate future (Westhead et al., 1997).

Another study illustrates that human capital development facilitated by training is to be seen as complementary to the willingness to innovate and change more generally (Baldwin et al., 1995). This study states that training 'tends to occur as part of three-pronged company strategy. Innovation and technological advance, emphasis on a range of quality products and

superior customer service and human capital development are highly complementary'. This study was based on a survey of 2 157 SMEs (defined as companies having less than 500 employees and less than 100 million Canadian dollars in assets). Using various multivariate techniques, other major findings reported were as follows:

- (a) training is related to the importance attached by firms to labour skills. The management of such firms are likely to attribute their growth to the skills of their employees;
- (b) the same applies to the relationship between training and the emphasis placed on the quality of products, customer service and adherence to total quality management (TQM) schemes ⁽¹⁵⁾.

1.4.2. Lack of resources/inability to plan and locate appropriate training

Even if an SME is aware of the benefits of training, it may face internal and external obstacles to investing in training. SMEs may have difficulties in identifying their training needs (14.5% of SMEs surveyed in the IKEI study (1997) summarised in Table 11 above indicated that this was a prohibitive factor). The Cedefop report (Gil et al., 1994) also indicated the 'absence of a clear human resources policy' (p. 13). Smaller enterprises with few employees may not have the financial resources to employ professional staff to create training plans and utilise other human resources management tools; the cost of turning to external consultants may be prohibitive. According to the 1997 IKEI study discussed above, approximately 15.5% of SMEs have a training plan; the figure ranges from 29.3% in France to 8% in Portugal.

The Cedefop report (Gil et al., 1994) also highlights the 'lack of information about the training provision' as well as the 'lack of services to meet SMEs training needs' (pp. 12-13). An SME may not have sufficient resources to find the most appropriate training to meet its needs. This may not necessarily be a demand-side issue, the quality and quantity (or lack thereof) of the supply of training courses may be low, preventing SME participation. Again, on the supply side, information may be lacking about courses tailored to SME needs. The timetables within training courses may lack flexibility; in smaller enterprises where it is difficult to fulfil the tasks of staff absent on training, flexibility of training times and opportunities is important. It is also more difficult for an SME to send large numbers of employees on training courses, in terms of both the financial implications and the SME's business activities. On the other hand, Table 7 shows that SMEs are more likely to provide external rather than internal courses; this may be due to the lack of available resources within the SME to provide the training in terms of staff and funding, given the relatively smaller number of employees.

1.4.3. Lack of internal funds for training and lack of access to external funds

It is probable that the costs of training are disproportionately higher for SMEs than for large enterprises, as smaller enterprises are not able to take advantage of any economies of scale in

⁽¹⁵⁾ The principle of TQM is that companies strive for continuous quality improvement.

the provision or purchasing of training, potentially leading to higher unit costs (assuming no intervention in the training market). The IKEI (1997) study highlights high costs as one of the main barriers to training in SMEs (27.5 % of respondents thought so - see Table 11).

A further obstacle relates to the availability of funds to finance training. Unless the SME has sufficient capital, it may be difficult to borrow money from commercial sources, when the potential returns are intangible and may not be accrued to the SME (in the case of the employee leaving, for example). Even where commercial loans are available, security requirements and interest rates may be too high for SMEs and repayment periods too short due to the levels of risk to the lender. Thus, in many cases SMEs do not have access to affordable funds to buy training. In a British survey of SMEs (Maton, 1999), this issue was raised by approximately 50% of respondents who had participated in a national loans scheme for training (see the small firms training loan case study in Section 2 of this report for more detail).

Even where specific schemes (e.g. levy funds) to provide financial support for CVT in enterprises generally are established, SMEs may be at a disadvantage. Many schemes only reimburse the equivalent of the contribution of enterprises, which in the case of SMEs may be too small to conduct effective training. Some support formal training courses only, which may not always be the most appropriate training activity for an SME. There are, of course, solutions to this problem, one of which is redistributive levy schemes, where SMEs are potentially at an advantage. However, SMEs may not exploit this advantage, due to ignorance, resistance or unfamiliarity with training, as outlined above.

1.4.4. Summary

Figure 1 summarises the potential reasons why SMEs invest and participate less in training than their larger counterparts:

Figure 1 Obstacles to SME participation in continuing training

	SME-related obstacles	Supply of training	Environmental factors
Expressed demand is below the perceived optimum level	<ul style="list-style-type: none"> Resistance/ignorance of SMEs or their employees to the benefits of training and/or an inability to focus on these potential benefits given other pressures. Inability to identify training needs. Lack of financial resources. 		Lack of information and/or services to inform SMEs of the benefits.
Demand cannot be realised	<ul style="list-style-type: none"> Inability to find time for training and/or to identify appropriate opportunities. Lack of financial resources. 	<ul style="list-style-type: none"> Lack of appropriate supply. Supply is too expensive. 	Lack of funding supply to purchase training or available funding is not distributed to benefit SMEs.

Interestingly, few studies approach the issue from the viewpoint that SMEs provide and participate in sufficient training for their needs. This may be due to a variety of reasons including the objectives underlying research and its design as well as survey comparisons with

larger enterprises which may not be appropriate, for example, only capturing incidences of formal training and measuring tools for planning training rather than ability to respond to training need.

1.5. Why support continuing training in SMEs?

As noted above, the European Commission and the governments of the individual Member States regard SMEs as important for the European economy. According to an OECD study (1997a) on small businesses and their ability to foster job creation and growth, one quarter of all public support programmes related to industrial policies in OECD countries are aimed primarily at SMEs. Of these, however, training is specified in relatively few.

There are many possible activities pertaining to SMEs that could be targeted for support through specific policy initiatives. Why are further actions required to increase an SMEs' investment in training? Taking the previous discussion on the potential benefits of training generally and the obstacles to investing in training for SMEs specifically, a framework for funding rationales can be developed.

In terms of the potential benefits of training, three policy rationales can be identified:

- (a) training can benefit individual employees by enhancing their future earnings potential, career progression and employability. Training targeted at the lower-skilled, those working in occupations undergoing restructuring or other groups perceived to be at a disadvantage on the labour market can improve their position. For example, EU Objective 4 programmes aim to assist employees in adapting to industrial changes (¹⁶). Thus, one rationale for supporting CVT in SMEs is to ensure that these individuals are not placed at a further disadvantage on the labour market, given that SMEs provide less training than larger enterprises;
- (b) at the enterprise level, there is evidence to suggest that investment in training impacts positively on, *inter alia*, company productivity, profitability and product/service quality. Thus, it may help ensure SME competitiveness and chances for survival. Again, policies could be targeted at certain groups of SMEs, such as those below a certain size, those within particular sectors facing specific problems, etc.;
- (c) there is evidence to suggest that training has positive effects on the economy (local, regional, national and EU). Training which enhances individual and enterprise capability and competitiveness creates better chances for survival against competition, both domestic and international. In the long term, this may lead to economic growth and further employment.

(¹⁶) See www.europa.eu.int/comm/sg/aides/en/p1ch2s1 for more detail.

In terms of the obstacles to training, another three policy rationales can be identified:

- (a) as discussed, several studies cite SMEs' unfamiliarity with the benefits of training and/or a resistance to train as one barrier to investment in training. Employers are concerned mainly with what happens in the short term; therefore, they are not willing to invest in training that may benefit the company only in the long run. Thus, a rationale for funding policy might be to temporarily encourage SMEs to participate in training as a way to assist them in understanding and realising the benefits to ensure that they undertake such investment in the future;
- (b) when lack of resources/inability to plan for training and locate appropriate training on the part of SMEs is assumed, intervention might consist of granting subsidies (usually indirectly in the form of information and guidance support): for example, SMEs could receive assistance in establishing a training plan and/or be made aware of training supply opportunities. A further response is to provide support for management training for SME employers which could emphasise the importance of human resource management and development. At EU level, this is one of the priorities within the multiannual programme for SMEs 1997-2000, especially at the start-up phase of an enterprise ⁽¹⁷⁾;
- (c) SMEs may lack internal funds for training as well as access to external funds. Another rationale for policy may be to lessen the financial burden of participating in suitable training options either in terms of the direct costs of training or the indirect costs, such as the loss of production time to an employee attending a training programme. In this respect, a rationale for funding policy is to enlarge the financial base for supporting training in SMEs through increasing the supply of funds. A further policy response is to provide incentives on the supply side, in order to encourage training suppliers to tailor courses to the specific needs of SMEs.

In practice, there may be several rationales for introducing a certain funding scheme. One scheme may achieve multiple goals. For example, certain schemes may combine the creation of financial resources for training with general business development, while others may be more targeted at ensuring access to funds specifically for training. Other schemes combine support of SMEs' training planning with funding for training, etc. Some of the case studies in the second part of this report demonstrate this multiple approach.

1.6. Funding options for supporting continuing training in SMEs

In previous sections, evidence of why SMEs invest in, and provide, less training than their larger counterparts has been presented. In addition, possible rationales for intervention in SME training activities has been discussed. In this section, potential policy responses will be outlined as a background to the information included within the case studies in Section 2.

⁽¹⁷⁾ European Commission. *Integrated programme for small and medium-sized enterprises (SMEs) and the craft sector*. COM(96) 329, 10.7.1996, p. 9.

1.6.1. Options for funding training in SMEs

Once the question of why policymakers think SMEs underinvest in training has been answered, options for funding training can be designed to rectify the situation. As already outlined, there are basically three reasons for underinvestment: ignorance, unfamiliarity and/or resistance to training; an inability to plan training and/or to find the right training options and training time; and a lack of internal or external resources to fund training. On the assumption that SMEs underinvest in training, a basic element of any policy to rectify this is to give SMEs access to funds for training; this approach may not be sufficient, however, given the obstacles outlined in the previous sections. More sophisticated measures may be more appropriate, such as funding schemes to support training planning, using exhortation schemes (such as advertising campaigns) to persuade SMEs of the potential benefits of investing in training and funding training supply so that SMEs have free access to training.

Another factor is the policy background already in place, within which funding policies for training in SMEs (or their absence) are set. This background will also effect the way policies are designed in terms of the source of funding, the type of funding mechanism and the aim of the mechanism. Policies may be created to stimulate training in all enterprises or may be part of a larger stimulus to SME development or linked to wider socio-economic objectives within, for example, general training and/or employment policies. Policies can also target enterprises of a certain size within the generic term SMEs, specific sectors or employees.

These elements are interrelated. The origin of funds to support continuing training in SMEs influences the type of funding mechanism introduced, its legal status, etc. For example, public funding may often be influenced by a more comprehensive rationale for training than is private funding. Public funding is more likely to design funding mechanisms which enhance the employability of SME employees and/or as part of wider measures such as active labour market policies. The source of funding will also be dependent on the existing administrative structure of the country as well as the responsibilities of the different economic stakeholders.

1.6.2. Funding sources

Public sources include government funding (which may be implemented at the national, regional and/or local levels) and the variety of EU funding available for national programmes which meet EU objectives. Private sources include banks, venture capital markets (institutional investors and business angels) and social partner organisations (on national, regional and/or sectoral basis). A further private source of funding may be certain enterprise networks, for example where a large enterprise has a contractual relationship with smaller enterprises and supports certain aspects of training to meet its own requirements. An additional source of funding is, of course, SMEs themselves. Finally, there might be various forms of cofunding: for instance, forms of funding where private (SME) as well as public funds are involved.

1.6.3 Types of funding mechanisms

Linked to the funding source is the type of funding mechanism introduced and its legal status. Funding mechanisms can be classified as voluntary or mandatory ⁽¹⁸⁾: subsidies, loans and grants are examples of voluntary funding mechanisms; contributions through levies to training funds may be compulsory for enterprises. Funding mechanisms could also be designed to target the demand (SMEs) or supply side (training providers) of the training market.

Figure 2 Options for funding training in SMEs

	Subsidy	Loan	Levy	Agreement
Source	Government (national, regional, local), EU, social partners	Government (national, regional, local), EU, banks, venture capital, social partners	All enterprises including/excluding SMEs, may be additional public funds	SMEs together with LSEs, social partners
Target groups	Directly to SMEs or indirectly through funding training supply	SMEs	All enterprises	Certain sectors, SMEs, all enterprises
Funding available for...	Training, planning or identifying training needs. Could be targeted for a specific level or type of training, for general business development or as part of a wider social scheme	Training, planning or identifying training needs. Could be targeted for a specific level or type of training. Generally for business development	Training, planning or identifying training needs. Could be targeted for a specific level or type of training or for individual training leave for employees	Training, planning or identifying training needs. Could be targeted for a specific level or type of training or for individual training leave for employees
Legal status	Voluntary	Voluntary	Compulsory (voluntary)	Voluntary (compulsory)
Duration	One-off/temporary/permanent	One-off/temporary/permanent	Temporary/permanent	Temporary/permanent
Market orientation	Demand/supply side	Demand side	Demand side	Demand side

NB: Tax incentives are not included within this list partly due to the large number of SMEs which may not make enough profits to be subject to taxation. Furthermore, the above types of funding mechanism reflect more proactive approaches.

The suitability of these numerous forms of funding varies in respect to the different obstacles attached to access for training in SMEs, and the perceived reasons why SMEs may underinvest in continuing training.

In principle, it can be argued that subsidies are suitable in two cases:

- (a) SMEs are ignorant of the benefits of training. Where this is perceived as the major obstacle to increasing SME investment in training, a pure monetary incentive may be the

⁽¹⁸⁾ Voluntary or mandatory schemes are themselves influenced by the level at which the policy is introduced. Sectoral funding arrangements, for example, are usually based on voluntary collective agreements, while government schemes could be either voluntary or mandatory.

necessary trigger for the SME to try training, to recognise the benefits and then to invest its own funds in the future. Such schemes might, therefore, be temporary in nature, at least in terms of restricting the eligibility criteria to exclude SMEs which have already participated;

- (b) SMEs are at a financial disadvantage in purchasing training when compared to larger enterprises due to diseconomies of scale. This obstacle may be overcome via subsidies making training available at an equal price. In this case, the subsidy may be directed at the supply or the demand side of the training market.

Loans may be particularly suitable where the perceived obstacle for SMEs to invest in training is the lack of access to internal or external funding sources. It assumes that SMEs are willing to invest in training for their employees but lack access to financial markets due to, for example, high security requirements or high interest rates on commercial loans.

Levies may be designed to address a number of obstacles. For example, a levy can be used to overcome SMEs' reluctance to invest in training by forcing them to allocate a certain percentage of their total wages to training (whether SMEs increase their investment as a result may be questioned, however). Levies can also be used as a way to collectivise and mutualise funding, so that diseconomies of scale in accessing training as well as fears concerning employee poaching can be overcome.

Agreements, as included in the Figure 2 above, refer to arrangements between SMEs (and large enterprises), sectoral bodies and governments concerning the provision of training. One example is collective labour arrangements, where employer and employee organisations agree on the provision of a certain amount or type of training in a given sector.

1.6.4. Other policies dealing with obstacles to invest in training in SMEs

The various funding mechanisms outlined above can be accompanied by additional measures to reinforce the aims of funding policies. Such elements might operate separately from specific funding schemes or be part of a scheme to reinforce its implementation. Following the obstacles mentioned in Section 1.4., these policies may include:

- (a) information campaigns geared to highlighting the importance of training for SME competitiveness as a means to overcome their general resistance to invest in training;
- (b) support, advice and guidance in identifying training needs;
- (c) support of SMEs in planning training and finding the supply opportunities relevant to their needs.

1.6.5. Targeted measures to increase training within SMEs or wider SME policies?

The measures outlined above are all specifically aimed at increasing training and/or guiding SMEs to finding the right training options. They can be used singly to overcome specific obstacles or in combination to surmount a number of obstacles faced by SMEs in investing in

training. Training can also be viewed as part of a broader strategy related to SME development, more generally, or used to deal with specific challenges (see Baldwin and Johnson, 1995). For example, the availability of funding for training could be linked to technological development, product/service improvement and/or assisting SMEs to innovate. If training is viewed as part of the measures required for comprehensive development, then separate funding schemes may not be necessary: one scheme may be used to support wider aims.

1.6.6. SME targeted or integrated policies?

Measures for SMEs could be integrated within existing schemes aimed at individuals or enterprises in general. Given that SME employees tend to receive less training, measures can also be aimed at guaranteeing that individual employees have access to training through, for example, individual training leave schemes. Where SMEs do not financially contribute to individual training leave, they may indirectly benefit from their employees' attendance. Subjecting SMEs to a levy scheme would ensure their investment.

Continuing training policies for SMEs may also be included within general funding schemes for training targeted at all enterprises: levy schemes, subsidy schemes, tax incentives, etc. Whether these schemes are sufficient, given the specific obstacles faced by SMEs compared to their larger counterparts, is questionable. However, they could be designed to include specific measures for SMEs. Measures for SMEs can also be combined with other policy aims such as active employment policies: for example, the *quid pro quo* for an SME to receive support for continuing training for its employees could be that it agrees to accept a replacement worker who has been unemployed (as is the case with job rotation schemes).

1.7. Summary

In this first part of the report we have highlighted the main reasons behind efforts to promote continuing vocational training in SMEs. The main findings are:

- statistical information on the role of SMEs indicates that they should be seen as a major driving force behind most European economies;
- research indicates a positive correlation between training and a number of economic indicators at various levels (macroeconomic, enterprise and individual), although an optimum level of investment has not been identified;
- SMEs provide and participate in much less training than their larger counterparts;
- SMEs may face many obstacles which hinder their access to training. These barriers can be grouped into three categories: unfamiliarity with, or resistance to, training; lack of resources to plan training or find the right training options; and lack of internal funds for training or lack of access to external funds;

- different rationales for targeting funding at training in SMEs can be defined according to the potential benefits of training in general and/or the various barriers to training in SMEs. Policies may target either one or more of the benefits and/or barriers mentioned.

The following part of the report describes a variety of schemes in operation within a number of European countries to assist and encourage SMEs in their investment in training. Through the case studies, the report addresses some practical questions about the nature of the policies in operation as well as some research issues (discussed in Section 3).

2. Funding training in SMEs: case studies

The case studies presented in this report were selected to indicate the type of funding schemes and policies in place to support continuing training in SMEs. To make this selection as relevant as possible, SME-experts throughout the EU were consulted. This was undertaken initially through a questionnaire and followed up with more detailed presentations for the cases selected. In selecting the schemes, an attempt was made to include as wide a range of measures as possible on the basis of criteria such as the nature of the funding mechanism, what it attempted to achieve, the different funding bodies involved, the exact target group, etc.

For each case, four types of information, related to the policy background for continuing training in the country concerned, the rationale for the scheme explored, its operation and any evaluative material, have been identified.

The schemes are the following:

- 2.1. The training voucher scheme (Belgium, Wallonia region);
- 2.2. Regional employment and economic development centres - *TE-keskus* (Finland);
- 2.3. Business development loan (Finland);
- 2.4. Financing continuing training through enterprise levies (France);
- 2.5. Agreements for the development of vocational training (France);
- 2.6. Assistance to replace a worker participating in training (France);
- 2.7. Small firms training loans (Great Britain);
- 2.8. The training support scheme (Ireland);
- 2.9. Stimulating training in SMEs, the sectoral approach: a case-study of the metalworking sector (The Netherlands);
- 2.10. Employment/training rotation (Portugal);
- 2.11. Basque agreement for continuing training (Spain);
- 2.12. Growth potential Objective 4 (Sweden).

Belgium, Wallonia region

2.1. The training voucher scheme

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A European survey (1996) indicated that, in comparison with its neighbour countries, the average Belgian enterprise investment in training is rather low: 0.86% of the wage bill as compared to 1.5% in Germany, 1.7% in the Netherlands and 2.8% in France. According to an OECD overview of 1995, however, the level of Belgian public investment for training workers is among the highest of the OECD members as a percentage of gross domestic product: 0.11%. Belgian public investment for training workers benefits 6% of the working population (only Denmark exceeds this with 7.9%).

The traditional measures of government intervention include: the system of paid educational leave, entitling employees to be absent from work for a number of hours to attend training as a tool of social promotion; the levy based financing of training, consisting of a contribution by Belgian companies calculated as a percentage of the wage bill; and the incentives of the major labour market actors, VDAB and FOREM ⁽¹⁹⁾, such as subsidies for collective training organised by companies and free training or training discounts for workers at the request of the employer.

At the federal level, the social partners agreed, in the new intersectoral agreement for 1999-2000, to make a commitment to additional efforts with regard to continuing education and training to ensure that Belgium achieves the same average level of training as its neighbouring countries within six years; i.e. investment should increase to between 1.2% - 1.9% of the gross wage bill. For 1999-2000, the target growth was from 1.2% to 1.4%.

Together with more traditional incentives, recent measures, such as specific regulations for SMEs for paid educational leave, the Flemish leverage fund for innovation-oriented training, the tax incentive Vlamivorm ⁽²⁰⁾ for labour-intensive and future-oriented industrial sectors (together with extra deductions for small companies' investment in training) and the training voucher in the Walloon region, are all expected to contribute to achieving this target. The new incentives intend to make training for workers more demand-driven.

Many surveys on the level of investment of enterprises in training show that SMEs invest less than larger enterprises in training their workers. A survey undertaken in October 1998 by NCMV ⁽²¹⁾, the Belgian employers' organisation for SMEs, provides insights into the obstacles SMEs face, even though 78.5% of the entrepreneurs interviewed believe that

⁽¹⁹⁾ FOREM: Walloon vocational training and employment.

⁽²⁰⁾ Vlamivorm: Flanders must invest more in training.

⁽²¹⁾ NCMV: *Nationaal Christelijk Middenstand Verbond*.

training for workers is cost effective (NCMV, 1998). The obstacles mentioned included: lack of time for training, lack of need, high training costs, the risks of losing a trained worker, lack of transparency of the training market and the absence of a training plan. The focus of this case study, the training voucher launched by the Walloon government, is on removing at least a few of these barriers.

2.1.1 Rationale for the training voucher scheme

The Walloon training voucher scheme was implemented at the end of 1998. Its objective is to raise SME awareness of the need to invest in training to maintain competitiveness and to enable them to respond to technological change. The scheme aims to stimulate training in SMEs with less than 50 workers through a simple, flexible and efficient incentive mechanism. It also aims to inform smaller enterprises of training opportunities in a transparent way and to ensure quality of the training on offer. It is open both to employees and employers working within SMEs and to independent entrepreneurs. The scheme is based upon the observation that traditional incentives are designed for larger enterprises and are often too bureaucratic and slow in their decision-making process to meet the individual needs of SMEs. For example, it is often the case that eligibility criteria for assistance (such as the duration of the training) preclude SME workers' participation. The training voucher system, however, is geared to breaking training down into smaller discrete courses that can be attended over a longer period of time.

Within the existing schemes to encourage enterprises to train their employees, SMEs are also believed to be at a disadvantage in that they are often ill-equipped to select the most adequate training provider to meet their needs in terms of a satisfactory quality/price relationship. In most cases the training supply is not accredited by quality management systems. The training voucher system, however, includes an accreditation system, thereby guaranteeing an acceptable level of quality of the training courses on offer within the scheme.

The design of the voucher scheme is also based upon a number of observations made in the study within the framework of the EU Force programme on continuing vocational training in Belgian enterprises (de Brier, Meuleman, 1996). In this study, it appeared that those Belgian companies providing continuing training on a systematic basis invest an average of 18 hours of training per year per worker versus the average figure of eight hours for all Belgian companies surveyed. In Wallonia, the amount of training per worker was even less than eight hours/year.

The voucher scheme aims to achieve higher levels, with 20 hours per worker per year as a benchmark. A further aim is to ensure 400 hours of training within a company (this amount is based on a calculation of 20 hours per worker in companies with 20 employees, although the voucher scheme is available to enterprises employing less than 50 workers). Based upon these two aims, the maximum amount of subsidised training hours each enterprise can benefit from per year through the voucher scheme is 400 hours.

The Force study also showed that industrial workers have less access to training than office workers or managers. As smaller enterprises tend to employ industrial workers, the training voucher system is expected to correct this deficiency.

A training voucher can be purchased for BEF 600 (EUR 14.87) and has a face value of BEF 1 200 (EUR 29.75). The value of the voucher corresponds to the price of one training hour, thus recipients benefit from a subsidy of BEF 600 (EUR 14.87). The face value of the voucher is based on the sum of an average salary cost per hour of BEF 800 (EUR 19.82) plus an average training cost per hour of BEF 400 (EUR 9.91).

2.1.2. Operation of the training voucher scheme

The voucher scheme is run on behalf of the government of the Walloon region by the *Office communautaire et régional de la formation professionnelle et de l'emploi* (FOREM), which is the Walloon employment and vocational training service. This organisation plays the role of a facilitator for SMEs to meet their training needs and also an interface between SMEs and training providers.

Within FOREM's head office, there is a taskforce established to oversee the operation of the voucher scheme, called *cellule chèque-formation*. This has been established to:

- (a) inform SMEs about the training courses available from training providers;
- (b) give assistance to the Walloon SMEs with regard to their training needs;
- (c) conclude an agreement with the company that issues the training vouchers;
- (d) promote, coordinate and supervise the training voucher scheme;
- (e) inform joint bodies, trade union delegations or the competent subregional employment and vocational training committee about the voucher subsidies available to an SME.

FOREM, being a training provider itself, does not run the accreditation procedure for any training provider or courses available within the voucher scheme (there is a separate accrediting body - see below). FOREM is also not involved in the issuing and processing of training vouchers; this task was awarded to an independent company (Sodexho Pass) after a tendering procedure.

2.1.2.1. Eligibility criteria

By virtue of a Decree of 23 July 1998 of the Walloon government, a commercial company which fulfils the following criteria is eligible to buy a training voucher to be used by its employees:

- (a) company run in the French-speaking part of Wallonia;
- (b) liability to VAT;
- (c) number of workers lower than or equal to 50 registered at the National Social Security Office (*Office National de la Sécurité Sociale*);

- (d) cumulated number of training vouchers issued within the same calendar year lower than or equal to 400.

An independent entrepreneur must be registered at the National Social Security Institute for Independent Entrepreneurs (*Institut National d'Assurance Sociale des Travailleurs Indépendants*) to be eligible.

2.1.2.2. *Application procedure*

The training voucher system is regulated by the following order of procedure among the different parties concerned:

- (a) the enterprise orders the vouchers from Sodexho Pass (the company issuing the training vouchers) through a form available from Sodexho Pass and FOREM;
- (b) Sodexho Pass checks whether the company meets the eligibility criteria to obtain the vouchers. If these are met, Sodexho Pass invoices the company the amount of BEF 600 (EUR 14.87) per voucher ordered;
- (c) within five working days after payment, Sodexho Pass sends the numbered vouchers with the name and address of the company printed on them;
- (d) the enterprise gives the training vouchers to the workers and sends them to the training courses for which they are enrolled;
- (e) the worker follows the training course then dates and signs the number of training vouchers corresponding to the training hours (s)he has attended after each training session;
- (f) the worker hands over the dated and signed vouchers to the accredited training provider;
- (g) the training provider indicates his identity on the back of the voucher (a seal);
- (h) the training provider sends the original of the invoice to the enterprise. The invoice contains the title of the training course, the duration, dates and training hours, the list of participants, including the training duration for each, and the number of training vouchers handed over by the trainees. The company pays the training provider the difference between the amount on the invoice and the total amount of the face value of the vouchers given to the provider if the total face value of the vouchers does not cover the amount specified on the invoice (see Example 1 below);
- (i) the training provider sends a copy of the invoice to Sodexho Pass and attaches all the vouchers given by the participants. The provider retains the counterfoil of the vouchers;
- (j) Sodexho Pass checks whether the training provider has been accredited for the training courses mentioned on the invoice. Once this has been confirmed, it will pay the amount of the invoice to the training provider, up to the amount corresponding to the face value of the vouchers received (see Example 2);

- (k) Sodexho Pass refunds enterprises an amount equivalent to the difference between the face value of the vouchers received and the cost invoiced by the training provider for its services;
- (l) each month, Sodexho Pass sends its invoice together with the statistical data of the previous month to FOREM.

Figure 3 Examples of how the training voucher scheme operates

Example 1: *The cost of one training hour is BEF 1 400 (EUR 34.69), i.e. BEF 200 (EUR 4.96) more than the BEF 1 200 (EUR 29.74) face value of the training voucher. The training provider sends an invoice to the SME with a copy to Sodexho Pass. The SME pays the excess between the cost of the training and the face value of the voucher, i.e. BEF 200 (EUR 4.96). Sodexho Pass pays BEF 1 200 (EUR 29.74) to the training provider and nothing to the SME. In this case the SME has paid 50% of the face value of the training voucher (i.e. BEF 600 (EUR 14.87)) plus BEF 200 (EUR 4.96), a total of BEF 800 (EUR 19.82).*

Example 2: *The cost of one training hour is BEF 800 (EUR 19.82). An SME employee has three vouchers to use for three hours of training. The vouchers have cost the SME BEF 1 800 (EUR 44.60) but have a face value of BEF 3 600 (EUR 89.21). The employee passes the vouchers to the training provider, who invoices the company for an amount of BEF 2 400 (EUR 59.47) and sends a copy of the invoice to Sodexho Pass. On the basis of the invoice, Sodexho Pass reimburses the training provider BEF 2 400 (EUR 59.47). It also refunds the enterprise an amount equivalent to the difference between the face value of the training voucher and the invoiced training costs (i.e. $\text{BEF } 3\,600 - \text{BEF } 2\,400 = \text{BEF } 1\,200$ (EUR 89.21 - EUR 59.47 = EUR 29.74)). This means the SME only pays BEF 200 (EUR 4.96) for each hour of training since the Walloon region has subsidised BEF 600 (EUR 14.87) for each training hour.*

2.1.2.3. Terms and conditions of the training voucher

The training voucher can only be used if the worker attends training during normal working hours and is paid for the hours spent on training. The voucher cannot be used in conjunction with any other support from the Walloon region for the same training.

One of the conditions of the training voucher system is that enterprises purchase services from accredited training providers. The accreditation process aims at guaranteeing SMEs that training courses will meet their needs both from a content and a didactic point of view. The accreditation is awarded by the minister in charge of training on the advice of a joint accreditation committee (*commission d'agrément*) considering the interests of both sides of industry. This committee has been set up within the administration of the Department of Employment and Vocational Training of the General Directorate of Economy and Employment of the minister of the Walloon Region. The accreditation committee is composed of tripartite representatives within the region and has a mandate for three years. It

gives advice to the minister concerning accreditation, its renewal and withdrawal of training providers according to the following criteria:

- (a) effectiveness of the training provided for the enterprise;
- (b) appropriateness of the training provided for the worker in terms of skills requirements;
- (c) compliance by the training provider with social and tax laws and regulations of the decree on training vouchers.

A training provider who wishes to be accredited within the training voucher system has to fill in a registration form containing the following information:

- (a) identification data: name, status and type of organisation, address, VAT number, bank account number, commercial registration number;
- (b) personnel: numbers of salaried/independent trainers, administrative staff, full-time, part-time, temporary;
- (c) experience in training fields (based upon a list of occupational fields);
- (d) turnover in 1996, 1997;
- (e) type of training: in-company, intra-company training, standard training programme, tailor-made training programme as a percentage of the total volume of training;
- (f) clients: enterprises in Wallonia, in Belgium (outside Wallonia), enterprises from abroad;
- (g) a list of references from clients who have ordered training services over the previous six months;
- (h) certificates from tax and social security administrations showing they comply with the regulations;
- (i) each training module the accreditation is applied for: field, title of the training module, level, target group, level acquired before training, training objectives, competencies to be acquired, duration of training, type of training (in-company, intra-company, residential, etc.), number of participants, price per person or per session, type of certificate, training location, subscription conditions, identity of the trainer, training partners.

Interested training providers send their registration forms to the chairman of the accreditation committee.

In practice, the accreditation procedure is planned in two steps. There is (as a transitional step) a provisional accreditation of registered training providers on the basis of a registration form, containing references from clients (which are checked). On this basis the accreditation committee can temporarily register the training provider to be accredited in certain fields for one or more training modules. In principle, the training provider should, within 12 months of registration, be submitted to an audit (second step) by an external organisation unless the provider already has a recognised quality standard certificate such as ISO 9000. Since the system only recently came into operation, no audits have taken place yet. It is expected that the audits will take place between 12 and 18 months after provider registration.

Renewal or withdrawal of accreditation will depend on the results of quality control procedures such as a trainee questionnaire (related to his/her degree of satisfaction as a client

on the training course). The list of accredited training providers is available from FOREM's *cellule chèque-formation*.

2.1.3. Evaluation

As the training voucher system only became operational at the end of 1998, no evaluation studies have been carried out. The observations below are based upon monitoring data registered since December 1998, made available by the *cellule chèque-formation*, and on interviews with the person in charge of this taskforce as well as with a person closely involved in setting up the training voucher system at policy level.

2.1.3.1. Take-up of training vouchers

The *cellule chèque-formation* monitors and registers the following data on a daily basis: number of clients (subdivided into independent entrepreneurs and SME employees), number of accredited training providers, number of voucher orders (one order can concern several vouchers), numbers of vouchers issued (i.e. sold), number of vouchers handed over (i.e. used) and the number of vouchers paid (see Table 12).

Between December 1998 and 22 October 1999, a total of 63 188 training vouchers were issued, which corresponds to a total value of BEF 75 825 600 (EUR 1 879 668). This means that independent entrepreneurs and SMEs who used the subsidy have globally invested an amount of BEF 37 912 800 (EUR 939 834) in the continuing training of their workers or in their own training.

Table 12 Development of the take-up of training vouchers per month (as of 22.10.1999)

	Clients		Total number of clients	Number of training providers	Number of ordered vouchers	Number of issued vouchers	Number of used vouchers	Number of paid vouchers
	Independent entrepreneurs	SMEs						
12.1998	2	10	12	73	11	812	0	0
01.1999	22	44	66	2	41	1 995	24	0
02.1999	13	102	115	15	110	4 130	154	32
03.1999	36	174	210	24	172	6 039	1 809	212
04.1999	30	125	155	21	210	8 292	2 493	2 630
05.1999	25	122	147	8	179	6 423	4 286	2 587
06.1999	10	47	57	8	138	5 553	6 956	5 096
07.1999	7	33	40	10	60	2 739	3 463	6 841
08.1999	11	42	53	0	86	3 486	1 925	1 981
09.1999	75	271	346	0	314	12 700	3 438	3 177
10.1999	45	137	182	13	269	11 019	0	2 172
Total	276	1 107	1 383	174	1 590	63 188	24 548	24 728

Source: *Cellule chèque-formation*.

The main message is that a total number of 63 188 vouchers have been issued for 1 383 SMEs and independent entrepreneurs. The difference between the number of vouchers issued and the number of used or paid vouchers is explained by the fact that there is time lag between the moment of availability of vouchers and the moment the worker takes up training and pays for it.

The lower numbers in the first couple of months can be explained by the fact that the system had just started up. The number of clients and the number of orders are very low during the holiday months (July and August). The number of issued vouchers gradually increased to a first peak of 8 292 in April 1999. September (12 700) and October (11 019) show large numbers of issued vouchers together with a large number of clients and a high number of orders. According to the representative of the *cellule chèque-formation* within FOREM, an increasing number of accredited training providers are organising information campaigns towards the target group of SMEs, thus encouraging interest in the system and stimulating demand for training.

At the outset, FOREM's monitoring system did not make it possible to give a precise picture of the number of workers who have benefited from the training voucher system. Since mid-September 1999, however, the *cellule chèque-formation* sends a table to all registered, participating SMEs (1 107 at 22.10.1999) with the request to fill in the following data: name of the participating worker; his/her date of birth and address; the name, place and industrial activity of the enterprise; date of beginning and end of training; number of training hours; training provider and training cost. At the end of 1999, 211 SMEs had responded and preliminary indications were that 521 workers attended training: an average of almost 2.5 workers per SME. By extrapolating this average to the total number of 1 107 SMEs which have ordered vouchers, it would mean that some 2 734 SME employees together with 276 independent entrepreneurs (i.e. a total of 3 010 persons) have been trained or will soon be trained through using the training voucher system.

Since one training voucher corresponds to one training hour, we can calculate that the average number of subsidised training hours paid for each of the 1 383 enterprises amounts to almost 18 hours per employee (based on the above 2.5 workers per SME average).

2.1.3.2. *Content and target groups*

With regard to training content, FOREM's taskforce estimates that about 50% of training vouchers are used for language courses, 25% for courses on informatics and 25% for other training (e.g. secretarial, marketing, quality management, security, welding, building, etc.).

Concerning target groups among SME employees, responses from 211 SMEs show that only about 40 workers of a total of 521 are blue-collar workers, which indicates that white-collar workers and managers have benefited more from the training voucher system. In spite of

expectations, the system does not yet give the industrial workers better access to training, although this may change as the scheme develops.

2.1.3.3. Efficiency and effectiveness of the training voucher scheme

Since the system has been launched only recently, no data on the efficiency and effectiveness of the system are available. Two tools currently exist: a checklist to audit the registered training providers and an evaluation questionnaire for the workers. Both will be used for analysis and steering purposes in the near future.

The checklist for the audit covers the following topics: training infrastructure, didactic material, pedagogical support for the trainer and for the trainee, the existence of quality objectives, competence of trainers, client satisfaction, registration and monitoring of quantitative and qualitative results.

The evaluation questionnaire for the workers who have completed training courses contains 12 statements on which the worker marks on a scale from 1 to 4 his degree of agreement or disagreement. The statements are related to the approach of the trainer, training materials, training environment and atmosphere, training content, impact of the training provided on the worker's competences and the usefulness of the training course in his/her daily working activities.

There is currently no routine system for evaluating the effectiveness of the scheme from the point of view of employers although this may be developed in the future. Nevertheless some employers have reacted to the scheme through written or oral (telephone) contacts with the *cellule chèque-formation* and Sodexho Pass. It appears that, generally speaking, reactions to the scheme are positive.

Immediately after the launch campaign in November 1998 (press conference, publicity mailing to 40 000 enterprises by FOREM), 400 SMEs showed an interest in the training voucher system. Among the advantages they mention, the simple character of the procedure and the financial incentive to give access to training are the most appealing. They are also very pleased that the training providers need to be accredited. There have been negative reactions from non-profit organisations and professions which are not liable to VAT (lawyers, medical doctors, etc.) and from SMEs in the German-speaking area in Wallonia, because they are not eligible for the system. They feel that the eligibility criteria discriminate against them.

Training providers are generally satisfied, especially those who have been (provisionally) accredited. If their accreditation is confirmed after the audit, it will mean more training orders. In spite of the simple nature of the registration form, some training providers complain about difficulties in completing it. French-speaking training providers in the Brussels Region feel discriminated against because they are not eligible. Out of 230 training providers who were candidates for accreditation, 174 have obtained provisional accreditation.

The reasons mentioned for refusing accreditation are: situated outside the Walloon region, not eligible for administrative reasons, did not complete the registration form or known as not being a serious training provider by one or more members of the accreditation committee.

2.1.4. Conclusions

Although the training voucher scheme initiated by the government of the Walloon region has not been evaluated thoroughly at this stage through surveys of SMEs and their workers, there are indications to conclude that the incentive can be considered as successful after less than one year in operation: 1 383 SME employees and independent entrepreneurs have taken up training vouchers to train more than 3 000 workers. It remains to be seen what the duration of the time lag is between the moment of issuing the vouchers and the moment these vouchers are used: Table 12 shows that out of the 63 188 training vouchers issued since December 1998, less than 40% have been used. Nevertheless, the number of SMEs and workers involved, together with some of the feedback received from employers, do show that the system successfully addresses a number of SMEs' main obstacles and concerns. SMEs clearly appreciate the simple and fast way they can obtain a subsidy of 50% of training costs and that they can find the appropriate training suited to their needs through the *cellule chèque-formation*. Perhaps the most innovative feature of the scheme is that it is linked to an accreditation system which guarantees a quality standard of the training on offer to SMEs and their workers. This should contribute to a transparent demand-driven training market.

Until recently FOREM's main concern has been to establish the system. In the course of time, when the effects of the incentive should become clearer, decision-makers will have to adjust some elements of the scheme to address specific problems and/or to meet the objectives of the scheme more effectively. It is already evident, for example, that blue-collar workers may benefit less from the scheme than other workers, although decision-makers considered them as an important target group. Whether this apparent inequality will be remedied remains to be seen in the future development of the scheme.

Finland

2.2. Regional employment and economic development centres (EEDCs - *TE-keskus*)

2.3. The business development loan

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Investment in continuing vocational training is not guided by law, regulation or any other kind of compulsory agreement in Finland. Continuing training is considered to be a voluntary activity that enterprises may or may not provide or participate in. Enterprises can determine the type and level of any training undertaken based on their needs and resources.

The public sector provides several measures to support companies in making a positive decision to participate in training. These measures are directed mainly to small and medium-sized enterprises, which indicates the public concern about their developmental possibilities and resources in relation to their larger counterparts. Two such schemes are discussed in this case study: the regional employment and economic development centres (EEDCs) and the business development loan (BDL).

2.2. Regional employment and economic development centres (EEDCs - *TE-keskus*)

2.2.1. Background and rationale to EEDCs

Employment and economic development centres (EEDCs) are regional service centres in which three ministries (Ministry of Trade and Industry, Ministry of Agriculture and Forestry and Ministry of Labour) have combined their services under one umbrella ('one-stop-shop') to make it easier for customers to visit different organisations and gain information about a range of services. Service counters guide the customer to the right experts and contact persons for their individual concerns.

The EEDCs were established in September 1997, although many of their services existed before that time. The centres provide services to business people, farmers and individuals in 15 regions throughout the country. The EEDCs have the following aims:

- support and advise SMEs at the different stages within their lifecycles;
- foster technical development of enterprises;
- support SMEs in their export and internationalisation activities;
- implement labour policies at regional level;
- provide training and education for adults in terms of labour policy;
- support rural industries;
- promote farming and fisheries;
- foster overall regional development.

These tasks reflect the threefold orientation of the EEDC concept: enterprises and entrepreneurship, employment, and primary production (farming). EEDCs also have a strong regional focus, which is particularly important in rural areas or in regions experiencing economic decline.

This case study considers the training activities for SMEs, supported by the Ministry of Trade and Industry, within EEDCs. EEDCs provide assistance to SMEs for three main activities: advisory services, training and development services and the financing of investment and development projects. They support training in SMEs through the supply of free or discounted courses.

The aim of national policy for subsidising training in SMEs has been to address the problem of training costs, i.e. to ensure that the costs do not form an obstacle to investment, and to overcome a lack of private organisations offering training services for SMEs. This lack of training supply in some regions is partly due to Finland being a vast and unevenly populated country, where entrepreneurial activities and related services are concentrated primarily in the south.

2.2.2. Operation

Subsidised EEDC training courses are available for all enterprises, although SMEs are the primary target group. While there are no sectorally-based limitations for enterprises, many of the training courses are targeted at SMEs within manufacturing. The Ministry of Trade and Industry subsidises the training provided; for some courses cofunding is available from the European Social Fund. Enterprises participating in EEDC schemes typically pay approximately 50%-70% of the training costs, although the subsidy may vary between 100% to 0%. Some training, therefore, is free of charge for some enterprises, whereas in other cases the costs may be fully covered by attendance fees. The amount of subsidy is dependent on an enterprise's ability to pay. For example, specific courses within a particular sector attract a smaller subsidy than basic courses (e.g. in marketing), since enterprises with specific needs

are expected to be more capable of paying. Basic courses are subsidised more in order to encourage enterprises without previous training experiences to participate.

Training aimed at start-up enterprises and very small enterprises is subsidised up to 70% or 80%. For established businesses the amount of subsidy varies between 0% to 50% according to the type of training (the subsidy is lower for training designed to inform enterprises than for training that supports developmental activities). For enterprise-tailored training, the subsidy is approximately 40%, although there is some discretion about the subsidy level, which may take the enterprise's ability to pay and its size into account.

Funding is available only for courses organised by EEDC, which consist of 'standardised' and 'tailored' training, and consultancy services for SMEs. Regarding standardised training, courses are aimed at the specific development needs or problems faced by SMEs; they cover areas such as business start-ups as well as the evaluation and development of a company's present state of business, productivity and financial state. In addition, training to analyse and improve product features and design, as well as company image, is available.

Since each EEDC operates autonomously, courses may vary between regions. Such 'tailored' courses are demand-driven to meet different enterprise needs and can be designed to fit a single company's requirements. The basic idea is that training should be practical and applicable to business situations.

The courses provided by EEDCs are taught by consultants and other experts in the field. Companies can gain information about available courses by contacting their nearest EEDC or by exploring different possibilities through a website on the Internet.

2.2.3. Evaluation

2.2.3.1. Budget and participation rates

In 1998 the total budget for business development services organised by EEDCs was FIM 78 million (EUR 13.1 million) of which FIM 52 million (EUR 8.7 million) is national funding with the remainder originating from the EU. It should be noted that this budget also includes services such as advice, counselling, professional services and regional development projects linked to training.

Participation statistics for training services according to enterprise size are limited. The number of participating enterprises has been estimated at between 6 000 and 8 000 annually which accounts for 3% to 4% of all SMEs in Finland, on average. Approximately 80% to 90% of participants are enterprises with less than 20 employees. In 1999, approximately 10 000 employees/entrepreneurs attended training and took advantage of development services provided by EEDCs. The total sum of training days was approximately 2 200 and the number of consulting days approximately 11 600 (these figures are based on the number of

days that trainers and consultants received payment and thus do not indicate how many participants attended per day). The number of training days that take into account the number of participants per day was approximately 23 000 in 1999. Thus, the average number of training/consulting days per participant was 2.3 in 1999.

The most common area of training was the improvement of managerial skills for company management and other key personnel, which accounted for one third of the total budget in 1998. Other important areas were training to foster entrepreneurship, training for business start-ups and training in marketing and internationalisation. More than 10% of the budget in 1998 was allocated for areas of training such as research and development, productivity, networking between enterprises and personnel development in enterprises operating in the service sector. Table 13 illustrates the breakdown of training days and budgets by focus area.

Table 13 EEDC training and development services according to focus area in 1998 (including both nationally funded and ESF cofinanced services)

Focus area	Consulting (days)		Training (days)		Number of trainees	Expenses (1000 EUR)
	1998	1999	1998	1999	1999 (only)	1998 (only)
Entrepreneurship and start-ups	2 400	2 736	530	515	5 021	2 300
Managerial skills	4 910	4 397	860	846	n/a	4 800
Marketing/internationalisation	1 190	1 809	400	375	n/a	1 500
Enterprise cooperation and networking	630	472	80	148	n/a	500
Adaption to new technologies, R&D, productivity	780	786	34	118	n/a	1 000
Personnel development in enterprises within the service sector	140	217	3	19	n/a	200
Not specified	1 150	1 172	210	205	n/a	3 600
Total	11 190	11 589	2 110	2 226	10 043 (*)	13 900

(*) Total number of trainees breaks down as follows: 5 021 trainees in entrepreneurship and start-ups, plus 5 022 trainees in all other focus areas together.

Source: Statistics of the Ministry of Trade and Industry.

2.2.3.2. Efficiency and effectiveness of the EEDC training schemes

The EEDC training schemes can be viewed as very important within the framework of different public funding policies for supporting continuing vocational training in SMEs. EEDCs are the main public instrument offering subsidised training designed to increase the level of human capital in SMEs in Finland. Due to the national coverage of EEDCs (main offices are situated in 15 counties with 19 branch offices), they are well rooted in each locality. Their personnel have established contacts with SMEs, as they communicate with them under a wide range of circumstances. This enables an EEDC, familiar with the needs and problems of SMEs, to design the appropriate training.

Evaluation studies have been conducted at three levels:

- (a) EEDCs as a whole;
- (b) training services in general;
- (c) standardised training products in particular.

According to an evaluation study (Sandberg-Ståhlberg, 1999) on 2 of the 15 EEDCs, customer satisfaction with their services was average and some specific criticisms of their business services were made. Potential areas of improvement included customer orientation, speed of the handling process and the behaviour (viewed as bureaucratic) of some EEDC employees. According to a national study on EEDC services (*Pk-barometri* 2/1999), the awareness of EEDCs could be higher among SMEs: of all respondents, 38% were familiar with EEDCs in general, although only 3% were aware of the availability of training and development services. The study also explored the image of EEDCs as regards quality. Participants familiar with EEDCs in general rated their quality as average (7.4 in a scale of 4 to 10).

The low level of awareness of the available training services is supported by the fact that at the current time, many participating enterprises are those which have already been involved in various courses. Although, this kind of customer loyalty may indicate that the quality of training is ranked quite highly by participating enterprises. It could be suggested that after an SME is aware of the training services offered by EEDCs and has passed the 'moment of truth' at the service counter, the training itself is worthwhile for the SME.

Evaluation studies on two of the standardised training services (Lääperi 1997; Salminen - Perkiömäki 1998) shed some more light on the effectiveness of EEDC provided training (although these services are often about consultancy support rather than pure training): the majority of participants were satisfied in both cases. Most interviewees stated that training had stimulated their developmental activities. One of the studies suggests the price-quality relationship represented value for money for SMEs. Customer feedback studies also indicate that enterprises have been satisfied with the training.

According to some other evaluation studies conducted, one of the main results of EEDC-provided training is that it has activated very small enterprises (<10 employees) to develop their operations through training. The scheme has also motivated small service firms to take part. Through participation, enterprises have implemented various development projects which have been identified as enhancing their profitability and competitiveness.

The scheme has also been credited with aiding SME management to recognise the importance of personnel training and development for the success of the enterprise. Other benefits were identified during the training process; for example, participant companies discovered areas for mutual cooperation and formed business networks. Through this, SMEs have learned to use external advice to solve their problems.

The EEDCs' organisation and experience has allowed them to develop specific tools and instruments to deal with each phase of a business' life cycle. These include tools for analysing the present situation of an enterprise, defining and prioritising its developmental needs and for tailoring needs-based programmes that take into account the enterprise's available resources.

Post-training evaluations have also identified areas where EEDCs could improve, such as in motivating new enterprises to engage in the training provided. In addition, post-training support should be enhanced, both by evaluating the effects of the training provided and by assisting enterprises to continue their development when they encounter other obstacles. The available training selection could be widened, as could the teaching tools and methods.

2.2.4. Conclusions

EEDCs are a regional service which SMEs, unemployed people and those who operate in primary production can use for various kinds of assistance and support. This case has focused on the training and development services aimed at SMEs. The rationale for offering subsidised training for SMEs is based on the understanding that the cost of training would otherwise discourage them to train their employees. Also, the provision of private training services for SMEs has been viewed as limited, and the State authorities have considered it important that all SMEs, irrespective of their location, have access to training services. Training services are available to all SMEs, but in practice the most common users are enterprises with less than 20 employees. The amount of subsidy offered varies according to the enterprise's paying ability which, in practice, means that start-ups and recently established firms are entitled to higher subsidies than other enterprises.

The training provision of EEDCs essentially consists of standardised training and development services (similar throughout the whole country) and of tailored services. The latter are provided regionally or locally on the basis of the needs of small groups or individual enterprises. One of the strengths of the EEDCs is that their regional location makes it possible for them to understand and take into account individual enterprises' training needs. Moreover, EEDCs provide sectoral training services, which makes it possible to adapt services better to specific sectoral needs.

Evaluation studies indicate that EEDCs have succeeded in lowering some of the barriers to enterprise training specifically in two aspects. First, the scheme has succeeded in activating SMEs, and especially very small enterprises, to train and develop their personnel by offering good quality training at a reasonable cost, thereby overcoming the lack of internal funds for training in SMEs. Secondly, via their participation, enterprises have gained some of the benefits associated with training and have seen its usefulness in developing their operations. EEDCs, therefore, have gone some way towards lowering the barrier of unfamiliarity with the potential benefits of training or management's resistance to train their employees in SMEs.

There are still issues that need to be improved within EEDCs and their services in the future. One is how to encourage other SMEs, and particularly those offering little or no training to their personnel, to use the training services available through EEDCs. The first step in that direction is perhaps to raise the level of awareness concerning these services and to ensure that SMEs in their first contact with the EEDCs are motivated to take an active interest in the various training services on offer.

2.3. Business development loan (BDL)

2.3.1. Background and rationale

The BDL was established in 1971 and is organised by Finnvera – the Finnish Export Credit Guarantee Agency and Domestic Specialised Risk Financier⁽²²⁾. The aim of the scheme is to assist SMEs in developing their business activities and processes to succeed in an increasingly competitive business environment with changing market conditions. The BDL is available for assisting development projects of which training forms only one part. The principle of the measure is to offer a loan with better conditions than commercial bank loans through a preferential rate of interest, repayment holiday and low security requirements.

2.3.2. Operation

The scheme is managed by Finnvera's regional offices, which grant specialised financing for SMEs based on centrally made guidelines and regulations. The loan is funded through Finnvera's own funds and training covers only one part of the total development project for which the loan is granted. This means that the loan is used for training as a tool to solve specific problems, not for general training. For example, a loan could be granted to an enterprise to establish a quality standard, which would include a budget for the necessary personnel training.

2.3.2.1. Eligibility criteria for the business development loan

The loan is available to enterprises that meet the following criteria based on the EU definition of SMEs:

- (a) the number of employees is less than 250;
- (b) maximum turnover amounts up to less than EUR 40.4 million (FIM 240 million) or the maximum of balance sheet total amounts up to less than EUR 26.9 million (FIM 160 million);
- (c) the enterprise must be independent, i.e. no more than 25% of the company may be owned by larger enterprise(s).

The loan is available to enterprises in production sectors and the tourist industry, as well as to enterprises that provide services to them. For very small enterprises (less than 10 employees) the loan is available to all sectors except agriculture. To be eligible for a loan, an enterprise should have a stable business with the likelihood of future profitability.

⁽²²⁾ Finnvera is a State-owned financing company that aims to: (a) support export activities of all Finnish enterprises by offering them export credit guarantees; (b) support domestic operations of Finnish SMEs by providing them with risk financing and guarantees.

The scheme is targeted at various developmental activities of which training forms one part. Acceptable activities include areas such as product development, the production process or product commercialisation (marketing), as well as the production framework, such as the development of managerial skills, creation of a quality standard system, marketing skills, preparation of international operations and consulting.

The loan is granted only to a development project that is outside of the daily operations of the enterprise and which has clear objectives and a long-term perspective. The enterprise must agree to report on the progress of the project to the financier. There are two reporting stages: an interim report while the project is still in progress and a final report just after the project has been completed. The reports must cover the following topics: objectives of the project, realised activities, results achieved so far, changes to the original plan, possible difficulties that have occurred, a plan for how to continue the development project and how to utilise the results of the project.

The loan may cover several direct costs that occur during the project. These include salaries (including those of the entrepreneur) and external services, as well as marketing costs and costs of various materials, etc.

2.3.2.2. Procedure for applying for a loan

An enterprise applies for a loan through one of Finnvera's local offices. When negotiating the loan, the enterprise is required to present a written plan for the project which should include an outline of the timetable, a proposal for various activities and a statement of available resources. Finally two separate agreements are prepared: one for the development part of the project and the other for the actual funding required.

2.3.2.3. Terms and conditions of the loan

After the loan has been approved, the funds are granted in instalments as the project progresses. As a rule, the last part of the loan will not be granted until the final report of the project has been accepted, although this is often waived in practice and paid earlier.

The loan usually covers between 50%-70% of the total costs of the project and provides a preferential rate of interest. Finnvera receives State subsidies in order to keep the interest rate on the loan below market level. There is also a repayment holiday of approximately two years, and the loan requires low security commitments. In very special circumstances, the loan may be converted into a subsidy if, for example, the project fails, the costs of the project exceed the benefits achieved or the payback of the loan endangers the financial position of the enterprise.

2.3.4. Evaluation

2.3.4.1. Take-up of loans

Table 14 below presents the amounts granted by the business development loan in the 1990s. The main reason for the decline in the amounts in 1997 is the introduction of new schemes which can be seen as partial substitutes for the BDL ⁽²³⁾.

Table 14 Value and number of business development loans, 1990-99

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
million EUR	8.2	9.1	10.1	21.9	17.7	22.3	29.8	12.7	18.7	20.9
No of loans	274	265	177	243	249	220	364	190	217	200

Source: Finnvera statistics.

In terms of the sectoral distribution of loans, enterprises in the basic metals, machinery and equipment are the most highly represented sectors, followed by business services and the manufacturing of electrical equipment.

According to evaluative studies, the overall demand for loans has been relatively low. One of the main reasons for this may be that, although there has been some promotion to raise the level of awareness of the scheme within enterprises, companies do not easily recognise what constitutes a development project eligible for the loan. According to studies, the majority of enterprises applying for the BDL are already customers of Finnvera. In many cases it is a Finnvera business analyst who identifies eligible development projects during consultations with SMEs on investment projects.

2.3.4.2. Purpose of the loan

According to Finnvera statistics, in 1995 nearly 30% of loans were used to fund product development and technology transfer, while a further 23% were used to fund production equipment and methods as well as marketing. From total take-up, the share of export-oriented and internationalisation projects, financial management, turnaround projects and the introduction of quality standard systems accounted for 14%, 8% and 3%, respectively.

According to evaluative studies, the loan scheme is particularly suitable for growing and developing enterprises. A third of enterprises which have received a loan (all engaged in exporting or just taking their first steps in that direction) fit this description.

⁽²³⁾ These recently launched schemes include 'Loans for small enterprises' (*Pienlaina*) and 'Loan for female entrepreneurs' (*Naislaina*).

2.3.4.3. The efficiency and effectiveness of the loan

As a whole, the BDL cannot be considered very important within the framework of public funding policies, since the total volume of the loans is not very high. In addition, the training part covers no more than 5% of the total sum borrowed.

Nevertheless, since the training is linked to a development project and is therefore very objective/problem-oriented, the BDL can be viewed as a more effective measure than schemes which have a more general target. On the other hand, the problem with the loan scheme is that enterprises are often not very good at identifying BDL eligible projects. This may be due to insufficient knowledge and/or time as to how to construct a developmental plan in advance. In addition, enterprises do not tend to think of training as an investment that can be financed with external capital – unlike product development or research and development activities. The reason why enterprises are often unwilling to use external financing sources for training may be that, since its benefits are difficult to measure, the risks of utilising external capital seem great.

It can be argued, however, that the scheme has been effective. When considering investments in general, and the different ways of financing them, it is important to try to find a financial instrument that meets the time-scale of the particular activity. For example, long-term investments should be financed through long-term financial measures: since benefits accrue only over the longer term, the similar term should apply to the costs. Without such regard, it could be harmful to enterprise liquidity. When considering investment in training, it can be argued that it is a long-term activity, since the benefits are expected to accrue over several years, and therefore, it should be financed through long-term instruments. The BDL has proved to be a tempting possibility for this kind of long-term financing, since it offers both a preferential rate of interest and a repayment holiday. A further problem for SMEs using external financing for personnel training, which the BDL addresses, is the issue of security for a loan to be used for training. Finnvera offers loans with very low security requirements.

2.3.5. Conclusions

The business development loan was developed during the 1970s, which indicates that concern for SMEs and their survival has long had a special position in the framework of public support schemes for enterprises in Finland. The rationale for the scheme is to assist enterprises in their development activities by offering them a publicly supported loan with under better conditions than commercial loans. The loan is available to all SMEs regardless of size or location. However, there is a sectoral orientation, which favours firms in the production and tourist sectors.

The BDL scheme differs from many other funding schemes aimed at fostering SMEs access to training particularly in two aspects. First, the loan cannot be used solely for training; training forms only one part of several development activities that aim to increase enterprise competitiveness. Secondly, the training eligible for funding through the measure may not

include improvement of non-specific, general skills of employees. Instead, the training must be problem-oriented, i.e. focusing on generating/improving only those skills necessary to the successful organisation and implementation of the development project.

According to evaluation studies, the take-up levels of the loan are relatively low. At least two reasons for this can be highlighted. First, new schemes have been introduced that to some degree substitute for the BDL measure. In addition, enterprises seem to have difficulties in formulating a development project in order to take advantage of the measure. Moreover, enterprises do not typically consider training as an investment that should be financed through external funding, as would be the case with, for example, improvements in the production process or research and development investments. For those using the measure, however, it has proved to be of reasonable assistance, not least because of its preferential conditions. It remains to be seen whether, in the future, this measure will be reformulated in order to encourage take-up. Perhaps the target group will be defined more specifically towards enterprises in the growing stage in their business lifecycles and just moving towards international activities – a group of SMEs which appear in evaluative studies to be particularly suited to the measure.

France

- 2.4. Financing continuing training through enterprise levies
- 2.5. Agreements for the development of vocational training
- 2.6. Assistance to replace a worker participating in training

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A variety of schemes operating in France are aimed at developing continuing vocational training activities within enterprises at both the national and regional levels and within certain sectors. Schemes are targeted at both enterprises and employees. While there are few national measures specific to SMEs, most consider them as a priority target group for training.

2.4. Financing continuing training through enterprise levies

2.4.1. Rationale

The main scheme at the national level to ensure investment in continuing training by enterprises is regulated by law and dates back to 1971. It binds all enterprises to spend a minimum percentage of their gross wage bill on training. This levy scheme was placed at the centre of a training system which aims to ensure equitable access for individuals, to ensure that individual careers could be developed by training and to contribute to economic prosperity through harnessing the potential of human capital. More specifically, it obliges enterprises to create training plans, to contribute to the costs attached to alternance training and to fulfil the rights of employees to take individual training leave or access a skill review during working time.

2.4.2. Operation

The monies levied can be managed by individual enterprises or paid to agencies, which are administered by social partners under criteria established by the State. There are two types of agencies which manage the levies: one is responsible for training plans and alternance training

(OPCAs⁽²⁴⁾), the other is responsible for personal training leave (Fongecif/Agecif⁽²⁵⁾). Until 1991, the levies were applicable only to enterprises with more than 10 employees, but then a further law was passed which extended the scheme to small enterprises with less than 10 employees. OPCAs manage the levies on small enterprises which are mutualised with contributions from other enterprises.

Under the levy scheme, each enterprise must earmark for training a certain percentage of its gross wages, based on its size. For enterprises with more than 10 employees, this is 1.5% (approximately 0.9% for preparing and implementing a training plan, 0.4% for alternance training, 0.2% for individual training leave, i.e. approximately 1.1% for continuing training). If enterprises spend below the minimum levy contribution for each of the levy criteria, then they must pay the difference to the OPCA (or, in the case of the allocation for individual training leave, to a Fongecif/Agecif). These contributions are mutualised and are available to other enterprises. In essence, the scheme works on a 'train or pay' basis.

For enterprises with less than 10 employees, the contribution is 0.25% of their gross wage bill (0.15% for preparing and implementing a training plan and 0.1% for alternance training). For this category of enterprise, the levy works on the principle of 'pay and train'. The contribution related to preparing and implementing a training plan (0.15%) must be paid to the relevant OPCA and is mutualised. Enterprises can then apply for subsidies to support their training activities. The rationale for the different arrangement for very small enterprises is that it facilitates the administration of their training activities.

The level of the contributions is the minimum amount which enterprises should allocate to training; higher amounts can be agreed at the sectoral level. The percentage contribution also varies for public authorities and self-employed people.

The Labour Code defines the way in which funds for training can be spent: on direct training costs as well as the wage cost for employees attending training. For internal training, trainer costs are covered as well as costs linked to the organisation of the training (e.g. training materials, travel costs, etc.).

2.4.3. Evaluation of the scheme

2.4.3.1. Participation of SMEs in training through the compulsory levy

Although enterprises of all sizes collectively spend above the level of the compulsory levy, small enterprises still provide much less formal training than their larger counterparts and

⁽²⁴⁾ *Organismes paritaires collecteurs agréés* (authorised joint collection agencies).

⁽²⁵⁾ *Fonds de gestion du congé individuel de formation/Association de gestion du congé individuel de formation* (personal training leave management fund/personal training leave management association).

spend less on training as a proportion of their total salaries than do larger enterprises, as Table 15 indicates.

Table 15 General training data by size of enterprises in 1996

	10-19	20-49	50-499	500-1999	2000+
Access rate to formal training (i)	8.7	12.9	29.9	47.3	52.8
Financial participation rate in % (ii)	1.73	1.87	2.52	3.48	4.87

(i) Access rate to formal training = number of trainees/number of employees.

(ii) Financial participation rate = training expenses/gross wage volume.

Source: Céreq, 1998.

In 1997, enterprises with 10 or more employees accounted for 98.2% of the total amount spent on training by all enterprises, although they only account for 11% of the total number of enterprises. They also account for 95% of training and 84% of training hours. The pattern of funding, however, has changed slightly between large and small enterprises, as can be seen in Table 16.

Table 16 Financial participation rate (% of gross salaries), by enterprise size, 1992-96

Enterprise size	1992	1993	1994	1995	1996
10-19 employees	1.50	1.61	1.61	1.68	1.73
20-49 employees	1.63	1.80	1.85	1.81	1.87
50-499 employees	2.33	2.50	2.48	2.54	2.52
500-1999 employees	3.45	3.57	3.51	3.50	3.48
2000 + employees	5.16	5.14	5.06	4.90	4.87

Source: Céreq, 1998.

2.4.3.2. Effectiveness of the scheme

The table above shows that, on average, the financial participation of larger enterprises has dropped slightly compared to that of enterprises with less than 50 employees, which has slightly increased. Research undertaken by Goux and Maurin (1998), however, indicates that many very small enterprises (less than 10 employees) treat the levy system like a tax, i.e., they pay their contribution but do not invest in training. According to a Céreq newsletter (Céreq, Bentabet et al., 1998), in 1995, three years after the new law requiring very small enterprises to earmark funds for training was implemented, their demand for training was slight. Their average level of financial participation was 0.03% compared to 3.5% in larger enterprises. In terms of the number of salaried employees benefiting from training activities, 10% of employees within very small enterprises participated in training compared to nearly 32% in larger enterprises. The newsletter indicates, however, that participation varies within the very small enterprise group due to the heterogeneous nature of these enterprises (for example,

franchisees and very small enterprises linked to a larger enterprise group participate in more training).

While the compulsory levy scheme ensures that all companies earmark funds for formalised training activities, enterprises with less than 10 employees do not invest in as much formal training. The Céreq newsletter highlights that the levy scheme is designed from the perspective of a larger enterprise and does not take into account the particular characteristics of very small enterprises or their diversity. An earlier survey also undertaken by Céreq (Céreq, Bentabet et al., 1996) indicates the following possible reasons why:

- many small enterprises feel that the best way to learn is through 'doing' rather than through formal training;
- it is more difficult for smaller enterprises to manage the absence of employees participating in a training course;
- there is a fear that external training is too similar to formal schooling and is not viewed as being very useful for the workplace;
- there is a fear that employees might leave the enterprise after training;
- external training is considered a cost rather than an investment;
- there is more reluctance on behalf of the employees.

However, very small enterprises often provide on-the-job training: therefore, statistics on vocational training may underestimate their training activities, as they rely on data generated by what is spent through the formal levy scheme. This has generated some debate in France on the concept of vocational training, which currently includes only formal training; it does not acknowledge the relevance of other types of training which may be more important for smaller enterprises.

Nevertheless, policies have been introduced to try to increase the amount of training in smaller enterprises through providing extra financial assistance. One such policy is the *engagement de développement de la formation* (agreements for the development of vocational training), another is the *aide au remplacement d'un salarié en formation* (assistance to replace a worker participating in training). The following text outlines these two schemes, although evaluations for the *aide au remplacement d'un salarié en formation* were not available.

2.5. Agreements for the development of vocational training (*Engagement de développement de la formation* - EDDF)

2.5.1. Background and rationale

The EDDF scheme was introduced on a national basis in France in 1984. It was designed to assist enterprises in adapting their employees to adjust to changing skills requirements within their profession and to changing organisational needs. One of the main objectives of the scheme is to assist enterprises and employees to adjust to structural economic changes, through a commitment to training, in order to uphold competitiveness. The basis of the scheme is to provide subsidies to enterprises for training through an agreement whereby they commit to increasing their training activities.

2.5.2. Operation

An EDDF agreement can be made at sectoral or enterprise level with the regional and local offices of the Ministry of Employment and Solidarity (*Ministère de l'emploi et de la solidarité*). The agreement can be cofinanced by the regional government and/or also receive additional funding through Objective 4 of the European Social Fund. While all enterprises can benefit from the scheme it is particularly aimed at those requiring a fundamental change in their operation, especially SMEs (defined here as those with less than 250 employees).

2.5.2.1 EDDF procedure at the national sectoral level

Due to similar training requirements within economic sectors, EDDF agreements are frequently made between the national Ministry of Employment and Solidarity and national sectoral representatives (these organisations represent the enterprises within the sector). These agreements can be adjusted to take into account regional factors, where appropriate. The 'national sectoral agreements' for the development of vocational training comprise:

- (a) definition of enterprise eligibility;
- (b) main trends, priorities and objectives for vocational training;
- (c) procedures for the national sectoral agreement.

National sectoral committees have been created to implement such agreements. Each agreement indicates the annual amount available from the ministry to implement the training. Any enterprise covered by the national sectoral agreement, through their usual collective agreement arrangements, can request support from the funds available to implement a training project.

2.5.2.2. EDDF procedure at the inter-professional or regional levels

Where there are no EDDF agreements at the national level for certain sectors, or in the case of an inter-professional training project, a range of agreements can be made with the DRTEFP ⁽²⁶⁾ and/or the DDTEFP ⁽²⁷⁾ (both of which are regionally based subsidiaries of the central government Ministry for Labour and Solidarity). These agreements can be:

- (a) a regional sectoral agreement;
- (b) an inter-professional agreement; or
- (c) a company group agreement.

In the same way as at the national sectoral level, regional committees have been established to implement such agreements. It is also possible for an individual enterprise to apply for a bilateral agreement through the DDTEFP.

2.5.2.3. Funding mechanism and EDDF conditions

Regardless of the government and/or enterprise level of the EDDF agreement, the amount of funding available from the ministry is fixed. The funds can only be used by enterprises for vocational training costs above the level of the legal obligation (see description of the levy scheme above) and in respect of an increase in training activity based on the amounts spent over the preceding three years (or the previous year for enterprises with less than 50 employees). To participate, enterprises must also work out a training plan ranging from two to five years and promote sexual equality.

The essence of the measure is to provide subsidies of up to 70% of direct training costs for participating enterprises with less than 500 employees. Enterprises with more than 500 employees are eligible for a 50% subsidy towards their direct training costs. There are no limitations on the number of employees that can participate in the training, although each participant should undertake at least 39 hours of training. The content of the training can be chosen freely by the enterprise as long as it contributes to its strategic development as outlined in their multi-annual training programme. Enterprises can participate in the EDDF scheme only once, however, and the agreement cannot be renewed. At the end of each year, enterprises participating in training with EDDF support must complete an official progress form indicating, amongst other things, their training activities, costs and number of participant employees.

⁽²⁶⁾ DRTEFP: Direction Régionale du Travail, de l'Emploi et de la Formation Professionnelle (Regional Directorate of Work, Employment, and Vocational Training, a regional subsidiary of the central government ministry).

⁽²⁷⁾ DDTEFP: Direction départementale du travail, de l'emploi et de la formation professionnelle (Departmental Directorate of Work, Employment, and Vocational Training, a regional subsidiary of the central government ministry).

2.5.3. Evaluation

2.5.3.1. Take-up of the measure

In 1997, a total of 3 468 enterprises, which accounts for approximately 0.2% of all enterprises in France, participated in an EDDF agreement. Of the beneficiaries, 90% had less than 50 employees (this included independent SMEs and subsidiaries of larger companies).

2.5.3.2. Efficiency and effectiveness of the measure

In 1997, the budget for the EDDF was EUR 44 million (FRF 288.8 million). On average, State support represented one third of costs for training supported by the scheme ⁽²⁸⁾.

Within the framework of different funding policies for training, the EDDF can be perceived as important. A 1996 survey (Céreq, 1998) was undertaken amongst a sample of enterprises which had participated in the EDDF scheme in 1994. This study indicated that amongst SMEs, investment in training had risen significantly (see Table 17). Furthermore, the survey indicated that both qualified and unqualified workers received training through the EDDF scheme, which is often not the case with training activities generally.

Table 17 Number of enterprises with EDDF (1994) and training expenses (% of gross wage volume)

Size-class	Number of enterprises with EDDF	FPR (*) (% enterprises with EDDF)	Average FPR* (% all enterprises)
< 10	69	4.94	n/a
10 / 19	123	5.15	1.61
20 / 49	277	4.46	1.85
50 / 499	400	3.38	2.48
500 / 1999	25	3.29	3.51
2000 +	10	2.62	5.06
Total	904	3.27	3.29

(*) FPR = training expenses/gross wage volume.

Source: Céreq, 1996.

An evaluation of the EDDF scheme was also undertaken in the food industry (de Legge et al., 1997) where there was an agreement within the Loire region. For the participating enterprises, the average training subsidy was 50% and the majority of the participants viewed the measure as significant: approximately two thirds of the enterprises reported that both their turnover and their level of employment had increased as a result of the scheme. There was also evidence that enterprises were able to increase their productivity and improve quality through the scheme. Other reported benefits included a better working climate, improved working

⁽²⁸⁾ Secretary of State for women's rights and vocational training, 1999.

conditions and better communication within the organisation. Enterprises that did not participate in the scheme within this sector were also surveyed. Reasons for not applying included the complicated nature of the application process. Furthermore, some companies had a bad or non-existent relationship with their representative sectoral organisation.

Other criticisms were made by participating enterprises, including the payment procedure which was perceived to be complicated and time-consuming. They also believed that the financing authorities should be closer to the participating enterprises. Some enterprises reported that they were unable to keep pace with their planned timetable for training. Furthermore, there was also evidence that the relationship between the original objectives and the outcomes of the training became blurred: for example, the original aim of most enterprises was to improve quality and to improve the qualifications of employees, whereas the results of the training were focused more on organisational aspects, such as improved communications. However, employees welcomed the commitment of enterprises to their training which also contributed to an improvement in the working environment.

Another survey by Céreq (1998) at both sectoral and regional levels indicated that the EDDF attracts participants because of the element of financial support. They highlight that the measure has fostered a more long-term commitment of participant enterprises to investment in training in a coherent way.

2.6. Assistance to replace a worker participating in training (*Aide au remplacement d'un salarié en formation*)

The following text provides a short description of a scheme tailored specifically for SMEs in France. Unfortunately, it has not been possible to identify evaluations of the scheme.

2.6.1. Background and rationale

This scheme was established by the State through the Law of January 3, 1991. Its aim is to support smaller enterprises (those with less than 50 employees) to increase their training activities. The rationale for the scheme is that the costs of replacing an employee participating in a long-term training course are a major obstacle for small enterprises to encouraging their employees to train. In addition to the possible negative effects this may have on the small enterprise, it may also have an effect on the ability of employees within such enterprises to exercise their right to participate in individual training leave (*congé individuel de formation*). This policy is therefore designed to assist both the small enterprise and its employees. The principle of the scheme is to provide subsidies to small enterprises to cover part of the costs of replacement employees while existing employees are attending a training course.

2.6.2. Operation

The scheme is operated and funded by the regional and local offices of the Ministry of Employment and Solidarity. A small enterprise can apply to its local/regional DDTEFP/DRTEFP (see EDDF case above) to receive the subsidy.

2.6.2.1. Eligibility criteria

The criteria and procedure for receiving the financial support are quite complex. Eligibility to apply for the support is determined by the contractual status of the worker wishing to attend the training, the type of training that is pursued and the procedure for hiring a replacement worker, among others.

In order to qualify for the subsidy, the enterprise must adhere to the following conditions:

- (a) the enterprise must have less than 50 workers and cannot be a public sector enterprise, national or local;
- (b) the worker wishing to undertake the training cannot be employed under an existing contract which includes an element of training (i.e. an enterprise cannot apply for the subsidy for workers who are already employed through an apprenticeship contract, etc.);
- (c) the training undertaken by the worker must be related to a profession, either to achieve a higher level of qualification or to retrain). The training must be undertaken during working hours at an external training provider and must be at least 120 hours in duration.

The training must be either planned within the enterprise's training plan or taken through the individual's right to training leave;

- (d) the replacement worker must be recruited from outside of the enterprise, either from a temporary employment agency (on a contract for a definite or indefinite period of time) or from an employer organisation (on a secondment arrangement). The replacement worker cannot be employed through the system of employment contracts with training attached (e.g. on an apprenticeship or similar contract). The qualifications of the replacement worker must fulfil the requirements of the vacant post.

2.6.2.2. The subsidy mechanism

An enterprise that fulfils the criteria outlined above is entitled to receive FRF 3 000 (EUR 457) per month calculated on the basis of 169 working hours (FRF 17.75/hour (EUR 2.70/hour)) by the replacement employee. The subsidy is available for a maximum of two years. The subsidy is reduced on a pro rata basis for replacement employees working less than 169 hours per month. The enterprise continues to pay the salary of the employee attending training. The total payments to the enterprise are checked when the replacement period is over.

If the enterprise breaks the employment contract with the replacement employee or if the employee discontinues training, the employer must notify the DDTEFP/DRTEFP; the subsidy is stopped and any overpayments must be repaid. If the replacement employee breaks the contract with the employer, then the DDTEFP/DRTEFP pays any outstanding subsidies due.

Great Britain

2.7. Small firms training loans

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Investment in continuing training by enterprises is not regulated by legislation or collective agreement in Great Britain. Training is viewed as a voluntary activity, whereby enterprises are seen to be best placed to make their own decisions regarding the level of investment in training and the type of training activity suited to their need. While enterprise training is a voluntary activity, the public sector provides some financial and other incentives to invest in training including the government-established training standard known as Investors in People (IiP). Enterprises can apply to be assessed against this 'standard' and, if they meet the criteria, can receive an IiP approval.

Despite this voluntary climate for investment in enterprise training, in recent years the government has established a number of initiatives that recognise the obstacles to investment in training that SMEs face. Studies have shown that SMEs provide less training than their larger counterparts, a survey of enterprises with up to 500 employees (Cosh et al., 1998) indicated that 45% of enterprises with less than nine employees provided formal training as opposed to 90% of enterprises with between 200 and 499 employees. One of the conclusions of the survey was that 'the provision of training improved the prospects for firm survival...in firms with between 10 and 20 employees'.

An evaluation (Hyland and Matlay, 1997) of why small enterprises do not provide more training indicated a number of obstacles, such as:

- lack of financial resources;
- lack of suitable training programmes and/or internal trainers;
- difficulties in identifying and costing suitable training schemes;
- lack of employee interest, especially among new recruits.

Specific funding schemes have been established by the government to overcome these obstacles and to assist SMEs both to identify and fulfil their training needs. One such scheme

is small firms training loans (SFTL); another is 'skills for small businesses' ⁽²⁹⁾. Both of these operate at national level (there are also a number of funding schemes which operate at regional level, many of which are supported by the EU structural Funds). This case study focuses on the small firms training loan scheme.

2.7.1. Background and rationale

The scheme was set up in June 1994 by the Department for Education and Employment (DfEE) to help small enterprises (up to 50 permanent employees) access funds for training and to encourage more employer-funded vocational education or training. The purpose of the scheme is to overcome the resistance of many small businesses to invest in training as well as to overcome capital market imperfections, where SMEs wanted to train but were unable to finance the training through a commercial loan. The principle of the scheme is to assist SMEs in developing and financing their training plans through expanding the availability of commercial loans. The government enables banks to lend (and small enterprises to borrow) funds with preferential interest rates and repayment holidays.

2.7.2. Operation

The scheme is operated through a private/public partnership between the Department for Education and Employment and eight commercial banks. Each year, the government agrees with each bank the total amount that it can loan under the scheme. Decisions on granting loans to small enterprises are made by these eight banks, although the involvement of the DfEE allows them to take a more flexible attitude towards SFTL applications than they would for normal business loans. The loans are available for training entrepreneurs, management and employees of small enterprises and they range from GBP 500 to GBP 125 000 (EUR 813 to EUR 203 384 ⁽³⁰⁾) depending on the number of people being trained. The DfEE has the main responsibility for the scheme's promotion, publicity and evaluation.

2.7.2.1. Eligibility criteria and the purpose of the SFTL

As mentioned above, one of the criteria for an SME to be eligible for a loan is that it employs no more than 50 permanent employees. A further criterion is that the proposed trainees are not in receipt of any other funding for the training proposed and that they intend to use the training or education provided to enable them to engage in a trade or profession within the European Economic Area (DfEE, SFTL application pack, p. 5).

⁽²⁹⁾ Skills for small businesses is a scheme designed to help small enterprises (<50 employees) to develop their in-house capacity for planning and implementing training. Essentially the scheme supports the training of a 'key worker' in each enterprise to act as a training champion and help in the preparation and implementation of a company training plan.

⁽³⁰⁾ GBP:EUR exchange rates as of 17/3/2000 from the European Central Bank website (www.ecb.int). EUR 1 = GBP 0.6146.

As outlined in the SFTL application pack, the loan may be used for payment of:

- (a) consultancy advice on training matters: small enterprises may apply for 90% of the costs of hiring a consultant to assist in identifying training needs and/or develop a training plan (up to a maximum of GBP 5 000 – EUR 8 135);
- (b) training costs: the loan may be used to pay for any vocational education or training course, whether full-time, part-time, open or distance learning (it need not lead to a formal qualification). The loan can cover up to 90% of these costs, plus the full cost of books, materials and other training expenses. All small enterprises applying for a loan to cover training costs must submit a training plan which has been agreed with employees. All of the training contained within the plan must be related to business objectives and to the development needs of employees.

The amount of money that small enterprises can apply for in respect of training costs must not exceed a maximum of GBP 10 000 (EUR 16 271) per individual and not more than an overall average of GBP 5 000 (EUR 8 135) per trainee covered by the training plan. Both limits apply irrespective of the number of people being trained (e.g. if only one person is undertaking training, the limit is GBP 5 000).

Other costs which may be included in a loan application to cover training costs are:

- hiring temporary staff to cover employees on training courses;
- hiring trainers or consultants for in-house training programmes;
- the salaries of employees acting as trainers (as long as the time spent training takes the trainers away from their normal duties and the training is off the job);
- costs for ‘accreditation of prior learning’(APL) for staff during the training period;
- accommodation costs for residential courses;
- travel costs, other than normal travel to work;
- additional childcare costs for trainees, above what they would normally spend;
- certain other costs, such as the fees for negotiating the loan and the cost of loan insurance.

SFTLs cannot be used to cover costs which do not relate directly to training. Neither can they be used to cover repayments on a previous loan for training or other similar expenses; salaries of staff employed specifically as trainers, the normal living and travel expenses of employees participating in training; costs already being met through other training grants/funds; the purchase of computer hardware and software, other than in exceptional cases where they are used for training on an ongoing basis; or lost production time.

2.7.2.2. Procedure for applying for a loan

If a small enterprise is applying for a loan from a bank which holds its main business accounts, then it must complete an application form and present it directly to the bank for

approval. Where a small enterprise is looking to borrow more than GBP 15 000 (EUR 24 406) and uses a different bank, it must have the application form endorsed by a training and enterprise council ⁽³¹⁾ (TEC), or Scottish local enterprise council (LEC). As a general rule, banks have the right to demand a TEC/LEC endorsement where they question the value of the training proposed within the loan application.

Where a TEC/LEC must endorse a loan application, their role is to ensure that any proposal for a loan to cover consultancy advice is clearly related to training matters; that the training listed in the plan is related to business objectives and the development needs of employees; that employees have been consulted about training courses; that the training chosen is both relevant and offers value for money; and that the training is provided by a reputable organisation.

Once the application has been prepared and, if required, endorsed by a TEC/LEC, the bank is responsible for assessing the financial viability of the loan requested on the basis of general indicators of business performance.

2.7.2.3. Terms and conditions of the loan

Once a loan is approved, the funds are granted shortly before the training/consultancy commences ⁽³²⁾. The repayment holiday, where no capital or interest payments need to be paid to the lending bank, depends on the size of the loan. During this period, the government pays the interest on the loan directly to the bank.

The loan repayment holiday is as follows:

loan range		repayment holiday
GBP 500 to GBP 7 000	(EUR 813 to EUR 11 389)	26 weeks
GBP 7 001 to GBP 15 000	(EUR 11 391 to EUR 24 406)	39 weeks
GBP 15 001 to GBP 125 000	(EUR 24 408 to EUR 203 384)	52 weeks

The minimum repayment period is one year; the maximum is seven years after the end of the repayment holiday period. Details such as payment arrangements, interest rates, loan collateral, repayment details and loan charges are negotiable between the bank and the borrower.

⁽³¹⁾ Training and enterprise councils (TECs) and local enterprise councils (LECs) in Scotland are local independent companies with boards of mainly local employers which contract with the DfEE for government funded vocational training. They are also responsible for fostering local economic development and stimulating employer investment in skills.

⁽³²⁾ If a loan is to cover training costs, the earliest date that the small enterprise can receive the loan is a calendar month before the training is due to start. If the loan is for training consultancy services, the earliest the loan can be transferred is the first day the service commences.

From March 2000, one of the participating banks, with the DfEE, is piloting new administrative arrangements for the SFTL and is offering them as part of its existing business loan package. An enterprise can apply for two types of loan depending on the amount borrowed (up to or above GBP 25 000 – EUR 40 677). Small enterprises will have a six-month capital and interest repayment holiday for loans up to GBP 25 000 or a 12-month capital repayment holiday for loans above GBP 25 000 (up to GBP 125 000 – EUR 203 384). With both types of loan, small enterprises receive a ‘cashback’ sum from the government at the end of the repayment holiday based on the amount borrowed and the Bank of England base interest rates (plus 2%) during the ‘holiday’ period. Under the pilot arrangements, the government will no longer pay the interest due to the bank during the repayment holiday.

2.7.3. Evaluation

In May 1998, the UK research partnership undertook an evaluative study of the SFTL scheme for the Department for Education and Employment (Maton, 1999). Many of the points within the following text are taken from the evaluation report; some are from case studies on the website for lifelong learning in the UK (www.lifelonglearning.co.uk). The points below provide some key figures regarding the take-up of loans and what they were used for, as well as some of the perceived costs and benefits with regard to the effectiveness and efficiency of the loan scheme and its administration.

2.7.3.1 *Take-up of loans*

The take-up of loans by small enterprises appears to be low. Between July 1994 and May 1998, 364 loans were awarded. The number of small enterprises in receipt of the loan represented only 0.03% of eligible enterprises within Great Britain. More than a third of small enterprises that participated in the evaluative survey believed that the low take-up rate was due to a lack of information about the scheme; some specifically mentioned the lack of publicity and promotion. This seems to be confirmed by other indicators: 18% of participants surveyed were concentrated within one particular geographical area where there had been a particular effort to promote the scheme.

Take-up of the loans was also highest in small enterprises with five or fewer employees (just under two thirds) and within enterprises that were newly established (from 1995 onwards). Most of the loans had been taken by small enterprises within the tertiary business sector. 25% were in accounting and legal services, market research, and business and management consultancy; a further 21% were in computer and computer-related services sectors.

The reasons given by small enterprises why they had applied for an SFTL rather than other forms of funding are listed in the following table.

Table 18 Reasons for using SFTL rather than other form of funding

	% of responses
Repayment holiday period	21.8
Cashflow, no other source of money	17.3
Reduced rate of interest	10.0
Encouraged by bank/accountant	8.2
It was a 'good deal'	7.3
Nothing else available	6.4
Encouraged by TECs	5.5
It was affordable	3.6
Cost effective	3.6
Easy to do, not time consuming	2.7
Don't know	1.8
Cash incentive from bank	1.8
Other	10.0
Total	100.0

NB: This table is based on interviews with 92 participants in the SFTL scheme.

Source: SFTL business survey, UKRP 1998, quoted in Maton, 1999.

2.7.3.2. The purpose of the loan

A total of GBP 2 119 779 (EUR 3 449 038) was loaned during this period (July 1994 to May 1998), an average of GBP 6 127 (EUR 9 969) per loan. Almost 30% of the loans were used to fund training in computer skills, while a further 22% were used to fund the acquisition of professional qualifications. There were a number of reasons cited why small enterprises took an SFTL. Most small enterprises wanted to increase employee skills to develop their business. Of the small enterprises that took the largest loans, one of the main motivations was to deliver a large training programme, rather than have staff train over different time periods.

As indicated in the table above, most small enterprises were attracted to the SFTL scheme because of the repayment holiday and the reduced rate of interest. Approximately one fifth of enterprises interviewed indicated that they were unable to pay for training from cashflow and/or it was the only form of borrowing that they could obtain.

2.7.3.3. The efficiency and effectiveness of the loan

Of the small enterprises that participated in the survey, 94% indicated that the training they had pursued through the SFTL had met most or all of their aims, which were to increase productivity, develop new products, cope with business restructuring (e.g. the introduction of new technology) or meet health and safety requirements. Other benefits were also outlined, such as an increase in staff motivation and loyalty to the enterprise (DfEE,

www.lifelonglearning.co.uk, 1999), although the Maton (1999) evaluation mentions that some employees left the enterprise on completion of training.

The survey reports that in 43% of the small enterprises that received an SFTL, the loan 'was paying for training where none had taken place in the last year. In 17% of cases no training would have happened within the business if there had not been an SFTL available and in a further 34% there would have been less training or it would have happened over a longer time scale' (Maton, 1999, p. 2). This seems to indicate that although there were some 'deadweight' implications attached to the scheme in terms of the public substitution of private sector funds, these were minimal, as the SFTL allowed enterprises to provide more training within a shorter period of time than would otherwise have been possible.

Some concern, however, was expressed about the effectiveness of the scheme in the long-term because the SFTL provided one-off, limited help rather than active encouragement to small enterprises to make training a regular part of their business activities.

The average cost per loan for the DfEE was GBP 381 (EUR 620), i.e. approximately 6.5% of the average value of the loans. These costs reflect the payment of the interest of the loan during the repayment holiday. As the scheme is implemented through commercial banks, the cost implications for the public sector appear to be fairly low.

2.7.3.4. Administrative procedure

The administrative procedure for applying for a loan varies according to the amount borrowed, the purpose of the loan and the relationship between the small enterprise and the bank. As a consequence of devolving the administrative process to the commercial banks, the criteria established by the DfEE for loan applications may be judged to be strict. Some of the evidence from the evaluative survey seems to support this view, from the perspective of both the small enterprise and the commercial banks involved in the scheme.

Of small enterprises surveyed, 9% specifically drew attention to the complicated administrative procedure for applying for a loan and to the role of the banks in the scheme. The evaluation indicated, however, that the stringency of the administrative procedure differed from bank to bank.

The SFTL is one of numerous schemes to support SMEs in Britain, all of which are administered by various public bodies. The evaluation points out that the SFTL should be part of a more comprehensive strategy of support for SMEs. Since the evaluation was undertaken, the government (Department for Trade and Industry and DfEE) has proposed the establishment of one-stop-shops (the small business service), where small enterprises will be able to obtain more comprehensive advice on available support, including the SFTL.

Some of the participating banks surveyed felt that they had had to establish a fairly complex administrative process to meet the criteria of the SFTL scheme. As the scheme represents a very small amount of banking business with a small customer base, they could not allocate resources to promoting the scheme. The banks believed that the administrative procedure should be more streamlined and that more public resources should be directed toward raising awareness of the scheme, especially through intermediaries such as training providers.

2.7.4 Conclusions

Those companies surveyed within the DfEE evaluation of the scheme indicated that there were 'two main factors limiting the provision of training...(an) inability to spare people from their jobs for training purposes and lack of finance' (Maton, 1999, p. 2).

The SFTL scheme appears to be beneficial to those small enterprises that have already identified the need to participate in training of some sort, as it does overcome the immediate problems of finding money to finance training. An evaluation of a participating small enterprise (DfEE, www.lifelonglearning.co.uk, 1999) indicated that it is difficult for small enterprises to obtain 'funding against a bank's usual lending criteria'. The same evaluation indicated that 'the repayment holiday gives cash flow benefits in that increased revenue has accrued before the first loan payments are due to start'. The repayment holiday also relieves pressure on those enterprises that want to train their employees at one time, where the initial financial impact of the training could be negative. Furthermore, the scheme does not restrict small enterprises regarding the type of training or how/where it is provided.

Those that have participated in SFTL do seem to be satisfied with the scheme. Nevertheless, participation in the scheme has been low. The evaluations of the scheme indicate some potential reasons why:

- small enterprises are not sufficiently aware of the benefits of training for them to want to train their employees (as mentioned, there is another scheme for small businesses in Britain called 'skills for small businesses' which is aimed at training key personnel within small enterprises to be 'training champions'; in addition there are a number of schemes which operate at regional level). The evaluation cited above indicated, 'the will for change must be there first of all...linked with a clear sense of direction...the funding sources can be considered';
- not enough small businesses know that such a scheme exists, due to lack of promotion either by the government, banks and other relevant organisations (although this is partly being remedied by the establishment of the small business service, which will be a one-stop-shop for small enterprises to obtain advice on all aspects of their business activities including training and the SFTL);

- the scheme is too specific in that it relates to financing training in isolation from general business development needs. From March 2000, one bank is piloting new arrangements and is offering the SFTL within its business loan product. Depending on the success of the pilot, the other partner banks may introduce similar new arrangements;
- the SFTL is not enough of an incentive for small enterprises to invest in training. The DfEE evaluation (Maton, 1999) mentions a previous evaluation undertaken in 1996 that indicated that in SMEs there was 'a reluctance to borrow and the expectation of grants and other 'free' options as a way of financing training were probably the main inhibiting factors'. However, the same evaluation did provide evidence that most enterprises do 'provide some training and finance at least part of it themselves suggests that they are willing to commit resources to this area';
- the procedure is too cumbersome for small enterprises interested in borrowing funds. As the scheme is operated by commercial banks, small enterprises must meet both the criteria for borrowing from the banks as well as the criteria for the scheme. Furthermore, the criteria and procedure vary between banks and TECs. As mentioned above, some SMEs felt that the administrative burden placed on them was acceptable, whereas others believed it to be too complex and demanding;
- a possible lack of supply of appropriate training opportunities. This is not examined in detail within the evaluations of the SFTL, although it appears that most participating small enterprises were able to find suitable training opportunities. As the SFTL provides funding to SMEs which have already identified a training need and have actively sought to fulfil that need, this may not be a surprising result for this particular scheme.

It is not possible to assess whether any of these potential factors have had a negative effect on the scheme or whether the scheme is operating at an optimum level given its specificity, although the DfEE evaluation indicates that 'the growth potential of the scheme is considerable' (Maton, 1999). As indicated within the first three listed points above, certain potential drawbacks to the scheme have been addressed through other policies or through changing the delivery of support schemes for SMEs.

It is difficult to judge whether or not the actual operation of the scheme is overly complex due to the different ways in which the individual participating banks may execute it. Most banks have their own way of conducting business, which may or may not suit the expectations of the customer. The evaluations seem to bear this out: while 9% of the DfEE SFTL survey indicated that they were unhappy with the administrative procedure, other case studies have indicated satisfaction (see, for example, case studies on the UK lifelong learning website).

Most of the surveyed participants in the scheme provided positive feedback, citing such benefits as productivity increases, successful expansion, increased staff motivation and commitment. There was only one tentative suggestion of the wider economic benefits of the

scheme, which was that overall growth in employment within those enterprises which had participated in the survey was 28% (Maton, 1999); this may indicate some link in small enterprises between investing in training and job growth.

2.8 The training support scheme

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Enterprise-related training in Ireland is viewed primarily as the responsibility of employers. The role of the State is one of promotion rather than direct intervention. The main policy in Ireland to support continuing training in enterprises is the levy/grant scheme introduced in 1967, although the current policy will change in 2000 ⁽³³⁾. Enterprises above a certain size within most sectors are levied at a rate of between 1-1.5% of total payroll. The levy is collected by the Training and Employment Authority (FAS) and up to 90% of individual contributions can be recouped by enterprises for their training costs. The remaining 10% of contributions are used for the costs of administering the scheme. Those enterprises which demonstrate adequate training performance in previous years and submit a training plan for the current year pay only 10% of the levy to FAS. The rationale for the levy/grant scheme in Ireland is to reduce differences in training levels between enterprises and also to prevent poaching employees from enterprises which train by those which do not.

Despite the existence of the levy/grant scheme, a survey undertaken by FAS in 1989 indicated that smaller enterprises were participating much less in training than their larger counterparts: 65% of employees received no off-the-job training as compared to 10% in larger companies. A more targeted State-run funding programme for training within SMEs, the training support scheme (TSS), was introduced in 1990.

Since its introduction, the TSS has become a central policy in promoting training in enterprises. The policy has been refined a number of times since its introduction, in response to further evidence that smaller enterprises train much less than their larger counterparts (Fox, 1995). Given the proportion of SMEs within the Irish economy (99.4%) and concerns about skills gaps, the TSS has been emphasised as a major tool within the five-year national development plans.

2.8.1. Background and rationale

The TSS was established by FAS in 1990. The scheme is designed to improve the competitiveness of Irish SMEs (up to 500 employees) through improving the skills of all employees within the company. The scheme supports SMEs through a system of grants to assist with the costs of training and to implement training strategies within each business

⁽³³⁾ In the financial statement of the Minister for Finance of 1.12.1999 a new levy scheme called the national training fund is outlined, whereby employers will pay 0.7% of their pay-related social insurance (PRSI) contributions from April 2000. The fund will be under the control of the Ministry of Enterprise, Trade and Employment. Existing sectoral and apprenticeship levies paid to FAS will be abolished.

sector. It is a demand-led policy in that enterprises identify their own training needs and can receive a grant to purchase training to meet those needs within the market.

2.8.2. Operation

The services to industry section of FAS is responsible for administering the TSS within the policy guidelines of the Department of Enterprise, Trade and Employment. The scheme is funded through FAS with public and EU funding.

2.8.2.1. *Eligibility criteria and the purpose of the TSS*

As mentioned above, enterprises of up to 500 employees can apply for a TSS grant from FAS. The scheme is open to enterprises within the manufacturing sector and internationally-traded services as well as wholesale and retail enterprises, distributors, the contract cleaning sectors and the motor industry. Construction enterprises that trade internationally are also eligible to apply. Subject to the application procedure, grants are available for the development of personnel at all levels and in all occupations in the following key priority areas:

- | | |
|------------------------|----------------------------|
| ◦ strategic planning, | ◦ productivity, |
| ◦ management, | ◦ quality service, |
| ◦ technology, | ◦ marketing and languages, |
| ◦ information systems, | ◦ finance. |

2.8.2.2. *Application procedure*

Companies which want to participate in the TSS scheme must initially demonstrate that the training need has been clearly identified and is linked to a business development plan or strategy. Funds are approved on a 'first come, first served' basis once a company development plan has been approved by FAS.

2.8.2.3. *Terms and conditions of the grant*

The subsidy available can only be used for training costs, not for the wage costs of trainees. The subsidy rate is graduated according to enterprise size and has been changed a number of times since the TSS was introduced, as the following table summarises:

Table 19 Changes in the TSS banding structure

1990-92		1992-93		1993-		1998-	
Size (*)	Grant	Size	Grant	Size	Grant	Size	Grant
<50	80%	<50	65%	<12	80%	<20	80%
>50	50%	51-200	40%	13-50	65%	21-50	65%
		201-500	25%	51-200	40%	51-150	40%
				201-500	25%	151-500	20%

(*) Size = No of employees.

Source: O'Connell and Lyons, 1995; FAS, 1998.

In 1993, quotas for the distribution of funding were also introduced, whereby 50% of funds were reserved for enterprises with less than 50 employees, 30% of funds for enterprises between 51-200 employees and 20% for those between 201-500.

According to the TSS general conditions from FAS (with effect from 1 February 1998), grant levels are limited to IEP 30 000 (EUR 38 092) per eligible enterprise for training purposes per year ⁽³⁴⁾. Enterprises which have received grants for two years in succession must make a further case for continued funding. The conditions also include a maximum payment per employee per year for attendance on a training programme of IEP 3 500 (EUR 4 444).

Enterprises which receive grants from the TSS can choose their training provider which are subject to a performance monitoring procedure in order to ensure good quality training provision.

2.8.3 Evaluation

Most of the evaluation cited within this case is from 'Enterprise-related training and State policy in Ireland: the training support scheme' (O'Connell et al., 1995). Additional information was found on the website of the Training and Employment Authority (FAS).

The evaluation undertaken by O'Connell and Lyons (1995) was based on a survey of 323 enterprises which had participated in the TSS in 1992 and a comparison group of 116 non-participant enterprises. The two surveys attempted to match enterprises with similar characteristics and each sample represented enterprises of different sizes within different sectors ⁽³⁵⁾. The prime aim of the survey was to evaluate the impact of the TSS scheme on increasing the quantity of formal training (on-the-job training was excluded) provided within companies. The following table indicates some key figures from the O'Connell and Lyons evaluation and is supplemented by more recent data.

⁽³⁴⁾ The IEP/EUR exchange rate used is IEP 1 = EUR 1.269738, the fixed rate since 1999. This rate has been used for all years.

⁽³⁵⁾ For more detail on the survey methodology, see O'Connell et al. (1995), p. 36 et seq.

Table 20 Key indicators and developments of the TSS, 1991-99

Training support scheme	1991	1992	1995	1996	1997	1999 (*)
No of TSS enterprises	1 204	1 369	2 500	2 818	2 839	3 000
% small (< 50 employees)				82%	84%	
No of TSS trainees	17 232	22 459	32 400	26 090	21 889	25 700
% managers				40%	39%	
% females				30%	34%	
TSS direct expenditure (million IEP)	4.75	5.63		5.9	4.8	8.8
TSS direct expenditure (million EUR)	6.03	7.15		7.49	6.09	11.17
% contribution from ESF	65	65				

(*) The 1999 figures are planned expenditure based on 1998 from the FAS action plan 1999.

Source: 1991 and 1992 figures quoted in O'Connell and Lyons (1995), originally from a report from the ESF programme evaluation unit at the Department for Enterprise and Employment on the industrial restructuring programme (1993). 1995 figures from Sexton and O'Connell. 1996 and 1997 figures from FAS, 1997.

2.8.3.1. Take-up of the TSS

O'Connell and Lyons (1995, p. 14) indicate that the scheme is oversubscribed and that the budget is appropriated by April/May of each year. They state that its popularity is, in part, attributable to its 'demand-led structure whereby firms identify their training needs and receive grant aid to purchase that training on the market'. The planned target for 3 000 enterprises in 1999 represents approximately 4% of all SMEs in Ireland (³⁶).

2.8.3.2. Cost-effectiveness of the TSS

O'Connell and Lyons (1995, p. 15) examine in some depth the cost-effectiveness of the TSS. They examine 'whether the scheme represents value for money for the State'. They attempt to measure this by considering how much additional training was created by the TSS, i.e. whether or not the grants were being used for training which would have taken place anyway, in which case 'deadweight' was an issue. In their survey, they asked enterprises which had received a TSS grant in 1992 whether or not they would have undertaken the training regardless of the TSS support, although they warn the reader about the subjective nature of the replies to such a question. More than half of those surveyed in receipt of a TSS grant indicated that they would have undertaken the training anyway, although almost the same proportion replied that less training would have taken place (40%) or none at all (8%). When these replies were analysed according to enterprise size, those within the smaller categories (less than 50 employees) responded that the same level of training would not have been possible without TSS support. O'Connell and Lyons (1995, p. 56) conclude that 'the net impact of the TSS in promoting a greater level of training than would otherwise have taken

(³⁶) This figure is based on 1996 statistics of the Fifth annual report of the European Observatory for SMEs (ENSR, 1997).

place was greatest among smaller firms, and, conversely, that for a substantial majority of large enterprises the TSS represents a subsidy to training activities which would have been undertaken anyway.

Through surveying enterprises which did not receive a grant from the TSS, but with similar characteristics to the sample participants, they also try to compare the training levels between the two groups, on the assumption that TSS-supported enterprises would have participated in the same amount of training as non-TSS supported enterprises if they had not received a training grant. Once again, the authors warn of the difficulties with such an approach. They found that TSS-supported enterprises provided substantially more training than non-participants, with the greatest differences found for enterprises of less than 20 employees. For larger enterprises, the difference was much smaller. This suggests that the TSS has the greatest effect on enhancing training provision in enterprises with less than 20 employees, and that there may be a high element of deadweight in providing TSS support for larger enterprises. Since 1993, the banding system has been changed to reflect this (see Table 19).

O'Connell and Lyons also found that the average duration of training varied according to enterprise size within the sample that had received TSS grants: 14.6 days in enterprises with 1 to 20 employees compared to four days in enterprises with more than 101 employees. In enterprises with 1 to 20 employees the duration of training was double the average amount in non-TSS supported enterprises of the same size. The differences in duration decreased amongst the larger categories of enterprises.

In addition to comparing the effect of the TSS between the two samples of enterprises through qualitative survey and through observation, O'Connell and Lyons also undertake a multiple regression analysis where they try to analyse the net effect of the training supported through the TSS. Again, they find that 'the effects of the TSS in stimulating an increase in the number of training days per trainee is mainly confined to small firms, those with 20 employees or less, while its effect on larger firms is likely to have been marginal' (p. 59). The authors also control for the graduated subsidy level, which could account for the greater effects of the TSS for smaller enterprises, by confining the analysis to enterprises with 1 to 20 employees and those with 21 to 50 employees, both of which (at the time of the evaluation) were entitled to the same level of financial support. In this latter case, they find that 'the principal effect of the TSS is to stimulate training in small firms, but that it has no additional effect in medium-sized firms' (p. 60).

O'Connell and Lyons also re-run the analysis between the TSS-supported enterprises and those that did not receive a TSS grant but undertook training. Once again, they find that the TSS had a much greater effect on training within enterprise of less than 20 employees. In this analysis, the net effect of the training within larger enterprises was non-existent.

2.8.3.3 Targeting of the TSS

Given the large number of organisations that fall within the definition of an SME for the purposes of the TSS, O'Connell and Lyons examine 'whether it is targeted at the appropriate companies and, within those companies, at the right personnel'. They point out that training deficiencies are more serious in smaller companies, although since this evaluation, the banding system has been changed to reflect this (see Table 19). They also highlight evidence ⁽³⁷⁾ that Irish enterprises often 'suffer from a particular deficiency in management development' (p. 16). Within their survey they measure the incidence of training within different occupational groups working in the enterprises surveyed to try to assess whether the level of management training increased for those enterprises receiving TSS grants. Their survey found that these training types accounted for a large share of TSS-supported training especially within smaller enterprises. They suggest that targeting more TSS funds at smaller enterprises would increase this type of training. They also suggest the possibility of linking the TSS grant level to this type of training and increasing the grant.

2.8.3.4. The quantity and quality of the training supported by the TSS

O'Connell and Lyons (1995) try to examine 'whether the subsidised training is of sufficient quality and quantity to achieve the objectives of the programme'. Within their survey, they relied on subjective judgements for these criteria. Almost 94% of respondents believed that 'their company's investment in training aided by the TSS was at least adequately offset' (p. 65). They also measured the number of participants in training and the duration of the courses, summarised below:

Table 21 Comparison of training participation rates (TSS v non-TSS supported)

	TSS supported	Non-TSS supported
Mean training days/employee	2.2	1.2
% of employees receiving training	47.7	33.0
Mean duration of training (days/trainee)	4.6	3.6
Expenditure on training fees (% of payroll)	1.8	0.9
Expenditure on trainee wages (% of payroll)	1.2	0.4
Total training expenditure (% of payroll)	3.0	1.3

Source: O'Connell and Lyons, 1995.

The impact of the TSS differed by enterprise size. For those with less than 100 employees, the volume of training was substantially greater within the TSS-supported sample. Among larger enterprises, the differences between the two samples were small. The training levels found among TSS-supported enterprises was highest within those with less than 20 employees.

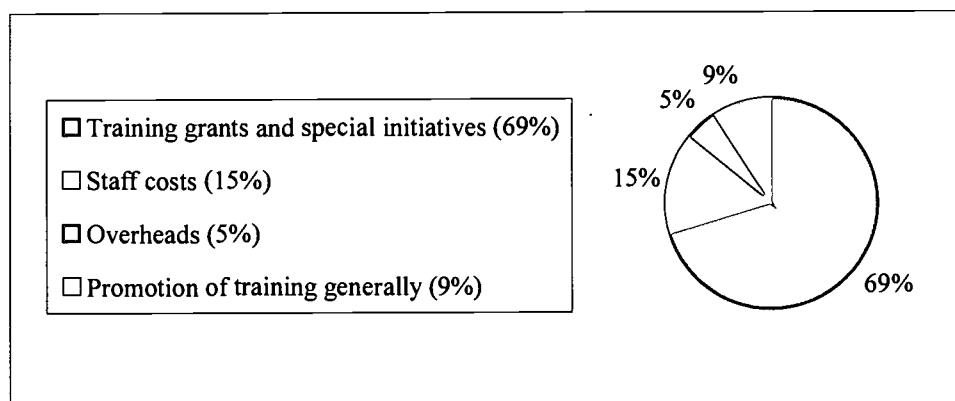
⁽³⁷⁾ O'Connell and Lyons (1995, p. 16) sources: National Economic and Social Council (1993); Industrial Policy Review Group (1992); Fitz Gerald et al. (1993).

The average duration of training was also longer amongst the smaller (<20 employees) TSS-supported enterprises. More targeted support for them could extend the average duration of training courses, as could linking the duration of training with the amount of grant available.

2.8.3.5. Administrative procedure

O'Connell and Lyons (1995, p. 14) conclude that the non-grant costs of the TSS for the 1 369 participating enterprises in 1992 were high compared to the percentage spent on grants. From Figure 4 below, it can be seen that 9% of non-grant costs were used for promotional activities, perhaps due to the new nature of the scheme at the time of the evaluation. O'Connell and Lyons do point out that the need to select between eligible projects on a case-by-case basis can lead to higher overhead costs. The authors conclude by highlighting a planned 75% increase in funds for 1994-99 and the potential this could have for increasing per trainee expenditure and for a proportional decrease in administrative costs. There are no recent figures indicating whether this was achieved.

Figure 4 Breakdown of TSS expenditure, 1992



Source: European Social Fund (1993), as reported in O'Connell and Lyons (1995, p. 14).

2.8.4. Conclusions

The TSS is popular with employers as indicated by the level of oversubscription to the scheme and the very early allocation of grants each year. According to O'Connell and Lyons, at least part of this popularity is due to the demand-led structure of the TSS, whereby enterprises can determine their own training needs and can gain a grant to purchase training for those needs within the market.

The scheme has undergone constant adjustment in an attempt to reduce the possibility of 'deadweight' in expenditure. The policy has become more targeted at small enterprises with less than 50 employees and especially for those with less than 20. The policy has moved in

the direction of the conclusions drawn by O'Connell and Lyons in their detailed evaluation of the scheme.

The funding for the scheme has constantly been increased, especially between 1997 and 1999, when it nearly doubled. A white paper on human resource development published by the Irish government (Department of Enterprise, Trade and Employment, 1997) included the objective of 'assisting small enterprises to overcome the skill barriers to development' and highlighted that the level of TSS would be increased further (see Table 20). Between 1991 and 1999, the number of enterprises in receipt of TSS has also more than doubled (see Table 20).

In 1998, Enterprise Ireland was established to assist the development of indigenous industry and internationally traded services. In order to target and administer the TSS more effectively, Enterprise Ireland gained responsibility for TSS projects within these sectors. FAS retains responsibility for the TSS for other types of SMEs.

The TSS scheme is an example of a policy aimed directly at subsidising the training programmes of small enterprises based on the rationale that they are a strong economic motor which requires targeted financial support in developing their human resources to increase their competitiveness.

The Netherlands

2.9. Stimulating training in SMEs, the sectoral approach: a case study of the metalworking sector ⁽³⁸⁾

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Financing training in SMEs in the Netherlands is closely linked to the provision of CVT for enterprises in general. The development of the current CVT situation was influenced by the recommendations of the Wagner commission in 1984. This commission (consisting of employer and employee organisations as well as members of the government) concluded that an increased involvement of the business community in providing vocational training was desirable. In this way the gap between vocational training provision and labour market needs could be narrowed. The recommendations of the commission resulted in the three parties agreeing on the principle that vocational education and training should be the joint responsibility of the State, training providers and the business community. As a result, the social partners became more influential in various committees advising the government on issues such as the development of sectoral professional profiles and the formulation of training targets (for instance, the number of apprenticeships to be offered in a given sector, the number of SMEs to be reached, etc.).

The principles laid down at that time still hold true. They have had a decisive influence on the structure and financing of CVT in the Netherlands: policy is the result of joint involvement of the State and the business community in terms of both financing and administration. Typically, CVT financing arrangements are made on a sectoral basis within the context of collective labour agreements (*Collectieve Arbeidsovereenkomst*). The most prominent arrangements for funding training within these agreements are the establishment of O+O funds (training, research and development funds - *Opleidings- en Ontwikkelingsfondsen*). These have been created to ensure a more solid foundation for training, and to embed its importance within the various sectors of the economy and the individual companies within these sectors.

It is in the context of this sectoral approach that special attention is given to financing training in SMEs. The reason for this is, as illustrated in the first part of this report, that there is evidence of SMEs' lagging behind in their use of training. The sector chosen for this case study is the metalworking sector. This choice is motivated by the fact that it is a typical sector in terms of enterprises of different sizes, so it can serve to illustrate how policies affecting the funding of training in SMEs are being implemented, within the context of the overall training funding policy in the sector.

⁽³⁸⁾ This case study is based on earlier ITS studies by Romijn and Warmerdam that have been updated.

2.9.1. Rationale

Estimates indicate that approximately half of the companies in the metalworking sector do not provide training. This is especially true of enterprises with less than 10 employees. A survey of 370 SMEs in this sector, conducted at the beginning of the 1990s (Steijvers et al., 1992), illustrates that in 31% of the enterprises, no employees followed any training during the 3 years preceding the study. In 27%, employees did at least follow training in one of these years, and in 42% of the companies one or more employees participated in training in each of the years. The results are given in Table 22 one below:

Table 22 Companies with and without employees in training, according to company size in the metalworking sector, 1992

Size of company	% with trainees	% with no trainees
1-10 employees	11%	52%
11-30 employees	35%	35%
31-75 employees	41%	10%
> 75 employees	13%	3%
Total (number of enterprises)	254	115

Source: Steijvers et al., 1992.

The survey among SMEs in the metalworking sector introduced above also uncovered the reasons why these SMEs are participating in less training. Of the companies with trainees, the following reasons were given as to why more employees do not receive training:

- employees are not interested and have a low motivation to engage in training (73% of respondents);
- there is insufficient time available;
- employers think training is either unnecessary or something that the employee has to do in his own time (36%).

Of the companies that did not train at all, the main reasons were:

- insufficient time available for training (18%);
- no adequate training supply (18%);
- no perceived need for training in the company (15%).

The rationale behind the efforts to foster the implementation of training in SMEs builds on three main arguments highlighted in the survey. First, SMEs (employers and employees) are insufficiently aware of the fact that sectoral training policies exist. Second, they are not aware of the benefits to training and third, SMEs have insufficient resources to engage in training activities. The financing mechanisms and policies outlined below attempt to deal with all of these potential obstacles.

2.9.2. Operation

2.9.2.1. The social partners within the sector have agreed to the creation of a training fund

This is financed by all enterprises, with contributions set at 0.55% of the total wage bill. At the same time, a framework for an educational leave arrangement has been agreed. In principle, the training fund is available to all enterprises in the sector. SMEs can submit an application (usually a training plan outlining the required programmes) to the training fund's administrative body. All enterprises can get a certain percentage (e.g. 50%) reduction for the training they purchase. For specific groups, such as female employees, employees over 40 and employees without a lower vocational education degree, the subsidy can be higher. The training plan should be submitted to the O+O funds within two months of approval of the enterprise work council. The following requirements must be fulfilled:

- (a) training activities have to be related to the human resource and organisation policies of the enterprise;
- (b) the plan should refer to special target groups such as female employees, employees over forty, and employees without a lower vocational education degree;
- (c) details of how individual employees can express their interest in participating in training.

As stated, the establishment of the training fund is the result of a collective agreement, applying to all companies regardless of size and scale, so all companies and their employees have equal training rights and facilities. As there is no differentiation between companies, larger companies pay more to the fund, but can also receive more. In principle, however, the fund has an equalising and redistributive function, whereby smaller companies can receive relatively more benefits. Despite this potential advantage, SMEs remain behind in their investments in training compared to larger companies.

2.9.2.2. SMEs are regularly targeted by information campaigns and consultancy efforts

These raise the level of knowledge about, and to encourage use of, the training fund and the way in which financial support can be gained. There are three main ways to inform SMEs, in particular, about the services available through the training fund.

- (a) traditional as well as electronic mailings and information services

Mailings are an important instrument to inform enterprises about training programmes, new courses, training costs, facilities for training, etc. Several mailings are in use in the sector:

- (i) a course catalogue, which is compiled by the administrative body of the training fund and which is sent free of charge once a year to all associated entrepreneurs. The catalogue contains a selection of training courses describing the content, training methods, target groups, duration, place and costs of the courses and possibilities for reimbursement of costs;

- (ii) a magazine, sent four times a year to all enterprises within the sector containing information of the training fund activities and drawing attention to any changes to the subsidy schemes;
- (iii) a magazine issued by the principle training institute in the sector, four times a year, containing, amongst other things, an overview of training courses to be held in the next half year, articles about specific courses and interviews with participants about their experiences;
- (iv) a website providing information on the training fund, e.g. on training courses and subsidy schemes for training; it gives up-to-date information in a monthly review of new training courses. The site also provides information on the training centres operating within regions, specifically where SMEs are sited;
- (v) a website of the branch organisation (the metal union), an initiative of the employers federation. This site aims to be an electronic platform for the transfer of information and knowledge for SMEs within the sector, training agencies and research institutes. Specifically for SMEs, there is a database indicating the supply and demand of work experience placements and about subsidy schemes for the placement of higher-qualified students in small metalworking companies.

Both websites are easily accessible and free of charge. Information is up to date and presented in a short, comprehensive way.

(b) personal information and consultancy services for entrepreneurs

The administrative body of the training fund has also developed a two-tiered system of personal information and consultancy services. The fund deploys seven regional training consultants across the Netherlands. Their main task is to help employers in their region to prepare their training plans and to provide them with advice about subsidy opportunities. Sometimes courses are provided directly to SMEs, bringing the supply of training appreciably closer. A team of branch counsellors supports each of these consultants. The counsellors tend to be experienced metalworkers, who have taken early retirement from their companies and now work on a voluntary basis for the fund under the direction of the training consultant. The counsellors visit employers in their companies, promote courses and other activities and give information about subsidy opportunities. According to the fund's administration, using qualified craftsmen who have worked in the sector is a great advantage to understand the situation in smaller companies within the sector.

In 1997 extra initiatives were taken by consultants and counsellors to reach the smallest metalworking firms; they visited approximately 50% of the 4 000 companies with less than 20 workers which had not applied for any support from the training fund.

(c) information and consultancy services for employees

A magazine issued four times a year to employees provides up-to-date information concerning training courses. It also provides interviews with employees who have participated in certain training programmes. Furthermore, employees' needs and wishes are discussed when an in-company training plan, usually a training plan outlining the required programmes, is made up.

2.9.3. Evaluation

What are the results of the efforts in terms of the implementation of training programmes in general and regarding SMEs in particular? Regrettably, no systematic research has been undertaken into this question, but figures from the fund's administration give at least some indication of what has been realised during the past years. Table 23 gives an overview of the development of the number of subsidised training days for all companies in the sector.

Table 23 Development of subsidised training days

Year	No of days	Year	No of days
1987	1 199	1993	66 305
1988	2 700	1994	62 952
1989	9 000	1995	61 130
1990	13 241	1996	59 488
1991	20 737	1997	66 592
1992	29 364		

Source: OOM, 1997.

As can be seen, the number of training days has sharply risen over the past 10 years. While the fund was in surplus during the 1980s, when it was being established and promoted, at the current time the fund is committed and may be overspent. The current levy on enterprises does not generate enough income to cover all expenses for training subsidies.

Furthermore, estimates for 1997 indicate that 30% of all companies had a structural training policy. Four criteria have been used to indicate this: actual participation of employees in training, employer awareness of company training needs, employer awareness of training supply and the formalisation of training through the preparation of an in-company training plan (OOM, 1997).

Several experts state, however, that despite these figures, training in the smallest companies is still under average (e.g. Waterreus, 1997). A recent internal evaluation by the principal training institute in the sector reveals that of all enterprises that participate in their courses, only one fifth are small companies (<10 employees), more than half are medium-sized companies (10 to 99 employees) and one fifth are large companies (>100 employees). In terms of turnover, 13% were small companies, 50% medium-sized and 36% large companies.

Thus, despite the fact that SMEs can gain proportionately more from the fund than larger enterprises, they still lag behind in investment in training. According to experts, the loss of production due to absence from work through attendance on training courses remains a major factor, preventing small employers from embarking on more training activities.

2.9.4. Conclusions

This case study attempts to illustrate how funds for training are being provided to SMEs under voluntary sectoral arrangements on the funding of training in enterprises generally. The metalworking sector is taken as an example. From this case the following conclusions can be drawn:

- the major training problem in the sector evidently resides within smaller enterprises, those with less than 10 employees (see Table 22);
- regarding the funding mechanism, smaller enterprises are not treated any differently than larger enterprises: the fund will repay 50% of the costs companies invest in training. The only differentiation is that more money can be made available when training is being provided for specific groups. Smaller companies, however, are being treated differently from larger ones in the sense that the fund is much more outreaching towards them than it is towards larger companies. Information supply is more intense, training counsellors visit SMEs and training is being supplied directly to SMEs;
- the funding mechanism is demand-driven. The funds are made available to companies, not to training suppliers;
- from the evaluation it can be concluded that the measure is quite successful, when taking the sheer increase in the number of training days provided in the sector. However, the smallest companies still lag behind the larger ones in their take-up of the funding available for training opportunities. Thus, although a general increase in training days has been achieved, the basic problem, of the smallest companies investing less in training than larger ones, has not been resolved;
- the evaluation of the scheme has not, as yet, led to any changes in the way the fund operates towards the sector as a whole or SMEs in particular;
- policy in this sector towards SMEs can be viewed as normal for Dutch policy-making in overcoming (market) imperfections. As a general rule, changes in funding volumes or mechanisms are not made very often, rather an extra effort is made to inform those who are supposed to benefit from the measure of its existence and how to apply. The Dutch also have a practical experimental approach to policy-making. In principle, measures are evaluated and changed or suspended when results prove to be unsatisfactory. Thus, although the policies described above are sectoral, they reflect the typical approach to policy-making.

Portugal

2.10. Employment/training rotation (*Medida rotação emprego/formação*)

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The professional performance of employees lies at the heart of enterprise success. Skills improvement benefits both the enterprise and its employees, by enhancing their chances to retain their jobs and to progress in their careers. While many enterprises and employees are aware of the benefits of training, they possess limited access into it. One of the obstacles most frequently mentioned as preventing Portuguese workers from receiving continuing training is that the majority of them are employed in small and very small enterprises. These enterprises find it difficult to provide vocational training on a regular basis, regardless of the value they place on it. Therefore, measures that encourage and foster access to continuing training for workers at these companies can be justified.

To tackle this obstacle in Portugal, a new scheme (employment/training rotation) was launched nationwide in March 1999⁽³⁹⁾. From the policy perspective, the objectives of the scheme are twofold: to foster SMEs participation in training and to enhance the rate of employment.

2.10.1. Background to the employment/training rotation scheme

The rationale for the scheme is based upon the fact that Portuguese SMEs submit fewer employees to training programmes than their larger counterparts and than SMEs in Europe, on average (Table 24).

⁽³⁹⁾ There is also another measure called *Programa Piloto Formação PME* (SME training pilot programme) in Portugal which is aimed at supporting training within SMEs. The mechanism of the measure is related directly to training rather than creating a funding mechanism for continuing training activities within SMEs. *Programa Piloto Formação PME* is a management programme that was established in 1996 by the former Ministry of Employment and Ability (*Ministério para a Qualificação e Emprego*), now the Ministry of Solidarity and Labour (*Ministério do Trabalho e da Solidariedade*), for micro and small enterprises with less than 50 employees. From the national policy perspective, the scheme is designed directly to foster SMEs' participation in training activities and there are two aims within it. First, to build up a training/counselling network for very small and small enterprises management support to improve company competitiveness and employee competences. The second aim is to achieve a unified profile (multidisciplinary) between trainers and counsellors to deal with the wide variety of training needs for every sort of very small and small enterprise. In practice, the training programme has two main aspects: courses to train the participating managers in one or several areas of knowledge related to the company's functions, and to give advice and counselling to the participating managers to try to solve potential problems within their companies. The training is free of charge for participating enterprises.

Table 24 *Proportion of enterprises offering training (any type) in Portugal and in EU-12, 1993*

Size class	10-49	50-99	100-249	250-499	500-999	1000 +
Portugal	9.9	19.9	32.6	38.1	55.4	80.2
EU-12 average	52.2	74.5	82.5	90	94.3	98.2

Source: Eurostat, 1997.

The employment/training rotation scheme aims to provide training opportunities to all SME employees (and specifically those with no professional qualifications), although the priority is to target SMEs with less than 50 employees. The principle of the scheme is to ensure that SMEs can send their employees on training courses without any adverse effects on its normal day-to-day operations due to staff absences. This is met by substituting employees attending training courses with unemployed people.

From the perspective of employment policy, the idea of the measure is to offer unemployed persons a possibility to gain professional experience at a workplace, thereby creating for them the potential to receive a temporary or even permanent position with the enterprise. The benefits of the measure are thus twofold: the unemployed person obtains valuable job experience through replacing an employee attending training, and the enterprise continues to operate at full strength.

To sum up, the aim of this measure is to promote and encourage continuing vocational training in SMEs and to facilitate the socioprofessional integration of unemployed people, thereby increasing their chances of gaining employment.

2.10.2 Operation

The measure provides support for SMEs in two ways. Firstly, companies gain technical assistance in organising training and the necessary job rotation. Secondly, the measure provides financial support. Employers are entitled to a subsidy of up to 20% of the national minimum wage for the staff member monitoring the substitute worker. In addition, the State cofinances the national minimum wage to be paid to the replacement worker and provides other social security benefits. Provided that the employer complies with all legal requirements, it is exempt from any expenses for the replacement worker during the period that the employee attends a training course, without prejudice to any other legal obligations. To sum up, an enterprise pays all the expenses (the wage and other social security benefits) of the employee attending a training course, and the State, in turn, pays all the expenses of the replacement worker.

The legal basis for the measure is the law of 20 February 1999 (*Decreto-Lei* No 51/99 - Decree by law). This law governs issues such as the granting of technical and financial support and the payment of social security contributions for employers that provide

their workers with access to continuing training. The measure is financed at national level by the Ministry of Solidarity and Labour (*Ministério do Trabalho e da Solidariedade*). It does not include any EU funding. The Institute for Employment and Vocational Training, IEFP ⁽⁴⁰⁾ (*Instituto do Emprego e Formação Profissional*) is the authority responsible for administering the scheme, promoting access to the measure and providing the required technical support (either through its own services or through outsourcing contracts, for example, to assist SMEs in drawing up their training programmes). It is also responsible for selecting the replacement workers from the unemployed persons registered with them.

Enterprises interested in participating in this measure can apply for support to the IEFP through employment or vocational training centres (*Centros de Emprego* and *Centros de Formação Profissional*). To apply, enterprises must present to the IEFP a training plan and a statement certifying that all payments due to social security and other tax authorities are regularised. Approval is based on quality criteria, and on the pertinence of the proposed training, which must meet a number of criteria:

- (a) it must take place during working hours;
- (b) its duration can vary between 1 and 12 months;
- (c) it must be of direct interest to the enterprise while simultaneously giving the employee a qualification;
- (d) the training actions must imply that the worker is absent from his/her workplace.

2.10.3. Evaluation

Since the measure is very new, there is not yet any statistical data available about the money granted, the number of applicants, etc. The measure can be considered as very important for supporting continuing training in SMEs in Portugal. SMEs submit few workers to vocational training schemes, but this measure allows them to improve their competitiveness by increasing employees' qualifications. Furthermore, unemployed persons gain valuable working experience in those SMEs.

⁽⁴⁰⁾ The IEFP is a public agency with administrative and financial autonomy. It is subordinate to the Ministry of Solidarity and Labour under the management of the minister. At regional level, there are 85 employment offices, 28 vocational training centres, six business start-up support centres (*Centros de Apoio à Criação de Empresas – CACE*) and one rehabilitation centre.

Spain

2.11. Basque agreement for continuing training (*Acuerdo Vasco de formación continua*)

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Continuing training in Spain is regulated by tripartite national training agreements (ANFC - *acuerdo nacional de formación continua*). The first agreement was signed in 1992 and operated from 1993 to 1996; the second agreement was signed in 1996 and will operate until the end of 2000. Both lay down the financial provisions for the levy contributions from employers and employees to fund continuing training. When the first ANFC was signed, responsibility for continuing training was transferred from the Spanish central government to a social partner organisation called Forcem (Foundation for Continuing Training- *Fundación para la Formación Continua*).

Given the special status of the Basque region within Spain, two of the most important Basque regional trade unions refused to sign the national agreement. In 1995, a similar agreement was reached in the Basque region (with the Spanish central government's acquiescence) which aimed to unify and renew support for continuing training within Basque enterprises. The Basque social partners established two agreements in 1995: the interprofessional agreement on continuing training (*acuerdo interprofesional sobre formación continua*) and the tripartite agreement on continuing training (*acuerdo tripartito para la formación profesional*).

The Basque arrangement mirrors what is in place at national level, but is exclusive to this region. It enables the region to administer the financial contributions from enterprises for continuing training through Hobetuz (the Basque foundation for continuing training), comprised of Basque trade unions, employers and the regional government. At the moment there is a certain degree of overlap in the responsibilities of Hobetuz and Forcem, and a public debate (mainly between national and regional trade unions) is in progress.

2.11.1 Rationale for the Basque agreement for continuing training

The main aim of the Basque agreement (as well as for the national agreement) is to foster continuing training activities amongst enterprises and employees. This issue gained in momentum during the mid-1990s. The main objectives of this agreement can be grouped under three topics:

- (a) to foster the continuous adaptation of employees and enterprises within the region to developments in job requirements and in the organisation and content of work;

- (b) to promote social development and employee skills' improvement;
- (c) to meet the challenges of the completing the EU internal market and to deal with the need for economic restructuring and the implications of technological advances.

Thus, in its widest sense, national and regional policies try to encourage an improvement in performance within all enterprises, thereby also enhancing the general economic conditions in the country.

2.11.2. Operation

The Basque agreement on continuing training is managed by Hobetuz. This foundation includes representatives of the three main social and economic stakeholders within its management structure: employers, employees (through trade unions) and the Basque government. As the national scheme is based on law and includes a compulsory levy scheme for all enterprises, the source of financing for Hobetuz is the same. This means that all enterprises within the region should contribute 0.35% of the total volume of compulsory contributions paid to the Spanish social security system in levy funds.

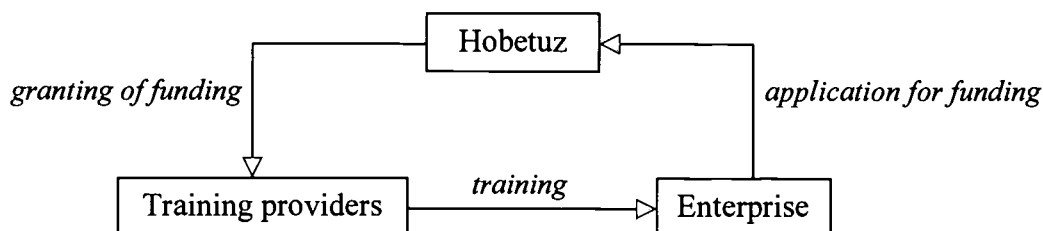
At the current time, however, the exact balance between the national and the regional scheme has not been defined. In the meantime, Hobetuz receives a funding allocation from both the Basque region and the central government on an ad hoc basis. Between 1996 and 1999, this budget was ESP 6 billion (EUR 36 million). Of this amount, 60% originated from central government. The remaining 40% was provided by the Basque government and local authorities. The European Social Fund also partly finances CVT activities in the Basque region.

Any enterprise can apply to receive funding to support continuing training from Hobetuz, irrespective of sector, legal status, size or type of training proposed. Perhaps the main difference between the regional and national scheme in terms of eligibility to receive funding is that under the national scheme (administered by Forcem) enterprises must have a minimum of 100 employees to benefit from individual funding, whereas under the Basque agreement this minimum is currently set at enterprises with more than 50 employees. Enterprises with less than 50 employees must present 'grouped' training plans, in collaboration with other enterprises, in order to meet the 50-employee minimum to apply for support.

Hobetuz's funding is not distributed directly to enterprises, but to training providers. In principle, this means that it is the supply side of the training market that is funded based on enterprises' expressed demand (see Figure 5 below). This approach is particularly beneficial to enterprises with more than 50 employees, since they are able to undertake the training which they request. For smaller enterprises, however, which present grouped training plans, it is often difficult for each individual enterprise to identify others with exactly the same training needs, both in terms of content as well as logistics (e.g. scheduling the training). Hence for enterprises with less than 50 employees presenting grouped training plans, much of the

training funded by Hobetuz is more supply-oriented, in that training activities are fostered by training providers. Nevertheless the principle of providers tailoring their courses to enterprise demand is the fundamental principle guiding the financing mechanism.

Figure 5 The process of applying for and receiving funding from Hobetuz



In general, the Hobetuz scheme supports the same kind of training activities as the national scheme operated by Forcem, i.e. it supports continuing training through subsidies. Additional activities which can receive funding include: the preparation of enterprise training plans, individual training leave and implementation activities which complement the proposed training.

2.11.3 Evaluation

There is a serious effort to construct and develop a regional CVT system from an integrated point of view, coordinating the activities of the different stakeholders and establishing links with both initial and employment training. Other advantages include the establishment of a stable source of funding for CVT activities. Given that the Hobetuz foundation includes representatives from the three most important social and economic stakeholders in the region, there is a good sense of coresponsibility for the scheme and its successful implementation and operation.

2.11.3.1. Obtaining funding from Hobetuz

One of the strong points of the Basque scheme is that almost all kinds of enterprises can receive financial support for their training from Hobetuz. This support is decided on a case-by-case basis. There are not strict criteria for granting funding in order to avoid imposing unnecessary restrictions and excluding enterprises, which may have very specific needs.

On the other hand, the administrative procedure for this approach creates problems. The timeframe within which enterprises can apply for support is very short, creating problems for their planning process. In addition, the lack of criteria for applying for support also requires a very detailed application procedure and evaluation process that may discourage applications from smaller enterprises. These costs are not covered by Hobetuz, presenting a further potential barrier to SME applications.

2.11.3.2. *Efficiency and effectiveness of the scheme*

At the current time, there is some confusion over the exact responsibilities of Hobetuz at the Basque regional level and Forcem at the national level and their current tasks overlap. According to several recent juridical decisions, Basque enterprises may ask for funds from both Hobetuz and Forcem. This issue cannot be clarified until a political decision is taken about the competence of Hobetuz in the Basque region. In the meantime, Hobetuz's activities continue.

The process of applying for and receiving funding from Hobetuz is a demand-side approach, i.e. the actual content of training activities should be determined by enterprises themselves according to their particular needs. One potential problem concerns the allocation of funds. Hobetuz intends to devote 15% of its total funds to training imparted by the trade unions and the employers' associations. There is a question as to whether this may distort the training supply. Furthermore, no quality standards have been defined for training providers, although they are expected in the near future.

There are also some problems in organising the 'grouped' training courses for very small enterprises, since the minimum number of course participants is 10. In some cases it is difficult to identify 10 people with the same training needs coming from different enterprises, especially if courses are very specialised.

A further barrier to SMEs in the Hobetuz scheme is the lack of support available to them to identify their current and future training needs. At the current time, there are no plans to take this into account. While data is unavailable to confirm this point, it can be argued that the existing arrangements tend to favour larger enterprises. One recent development in the scheme that may overcome this problem is that individual employees may apply for support.

Sweden

2.12 Growth potential Objective 4

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In Sweden, CVT in enterprises is not regulated by law ⁽⁴¹⁾, allowing enterprises to decide freely on their CVT activities. Yet there are a variety of CVT opportunities consisting of public adult education and employment training attached to labour market policies, as well as different types of in-company personnel training. Although training is available through many different sources, there is still a bias regarding access. It is well recognised that the amount of training offered to employees increases along with enterprise size (Abrahamsson, 1999).

Employee training in Sweden has a relatively greater role in ensuring enterprise adaptability to changes in the business environment, and therefore in improving competitiveness, than it has in many other countries with different kinds of political and legal structures. This is because Sweden has strict legislation on employment protection and industrial activities, which hinders enterprises from adapting to changes in market conditions through reducing either employee numbers or wage levels. Under these circumstances training is seen as a major instrument for enterprises to be proactive against changing market conditions.

The State has tried to tackle the problem of underinvestment in training by SMEs through various support systems, from direct financial support to free advice and information services, accessibility to different networks and web resources. There have been recent proposals to reduce employer contributions (for example, social insurances, retirement payments, etc.) for those enterprises that commit themselves to investing in the improvement of their employee skills and competences. It has also been suggested that SMEs should be assisted in putting aside some of their profits gained during economic expansion for training their staff during periods of recession. Initiatives have also been proposed for individuals, whereby they could pay money into special education accounts. There is an aim, therefore, to ensure that all employees can participate in CVT activities, although not all of the above proposals have been implemented.

⁽⁴¹⁾ The only exception is training for occupational safety and health, where laws are imposed.

The following case study is based on an EU part-funded scheme for SMEs in Sweden; it is considered to be one of the most significant schemes to encourage SMEs to participate in continuing training.

The basic aim of Objective 4 programmes within the EU framework for the Structural Funds is to assist workers (through different activities) to adapt to industrial change. Objective 4 applies throughout the EU, and is available in all regions in all Member States. It is funded solely through the European Social Fund (ESF) and the budget between 1994 and 1999 was approximately EUR 3.4 billion. Each Member State is expected to cofinance Objective 4 activities from national sources.

Objective 4 action is targeted at workers, mainly to those employed in SMEs. The focus is especially on those who are threatened with unemployment and faced with industrial change as well as changes in production systems. It consists of several activities that include, for example, anticipation of labour market trends and vocational qualification needs, vocational training and re-training. It also tries to reach its aims through guidance and counselling, as well as through the development and improvement of appropriate training systems.

For 2000-06 the number of objectives within the Structural Funds will reduce from six to three. The issues covered by Objective 4 to date are planned for inclusion within a new Objective 3 that tackles the topics of training and employment.

The organisation and implementation of Objective 4 is handled independently within each Member State, which means that national programmes differ. Below follows a description of a Swedish Objective 4 programme, including how it is organised and funded at national level and how it is implemented in SMEs.

2.12.1. Background and rationale for the growth potential Objective 4

The growth potential Objective 4 (*Växtkraft Mål 4*) programme was started in Sweden in 1996 and continued until the end of 1999. The overall goal in the Swedish programme was to contribute to an increase in the will to change and to implement competence development programmes for employees in SMEs. The main argument in the single programming document (Swedish EU Programme Office, 1996), which defines the guidelines for the scheme, is that the development of employee competence is a necessary precondition for the survival and competitiveness of their employer companies, and that these measures can beneficially be combined with the development of the enterprise and its organisation.

At the same time, the programme gives special attention to those who have the least capacity to cope with changes companies must make to meet the challenges involved in structural transformation. Particular attention is paid to employees with a low level of formal education, or outdated training. In addition, sexual equality is promoted.

The aims, therefore, are twofold: first, to assist employment policy by encouraging individual employees to improve their skills level; secondly, to enhance SMEs productivity and competitiveness (this may also have an impact on employment if an SME's growth leads to recruitment). These aims are to be met through providing subsidies for CVT in SMEs to influence attitudes towards training and encourage more employee and SME participation. The measure was designed to link training with predetermined long-term objectives formulated jointly by employers and employees. In order to achieve this, the measure is organised into two steps: planning and implementation.

The growth potential Objective 4 programme is the largest investment by far for developing competences in SMEs in Sweden. The scheme has mainly targeted SMEs with less than 50 employees (although there are some regional variations), since it is assumed that the obstacles to adapting to structural changes are, in principle, greater for them than for larger enterprises. It is also believed that these companies are behind their larger counterparts in respect to their attitudes towards training. Furthermore, their financial position is not so strong. Each of these are viewed as factors which may prevent these enterprises from participating in training and development.

Various quantitative goals were set for the scheme, including: to contribute to the development and renewal of around 30 000 SMEs (approximately 10.6% of all SMEs and 10.7% of enterprises with less than 50 employees⁽⁴²⁾); to achieve competence development for almost a quarter of a million employees; and to implement almost 1.7 million training days.

2.12.2. Operation

The project's head office is in Stockholm. In each region, committees have been set up to implement the programme and to decide on the local direction of the measures. The committees include representatives of both employer and employee organisations – LO (Swedish Confederation of Professional Employees) and SACO (Swedish Confederation of Professional Associations). Usually, the Federation of Private Enterprises, the County Administrative Board, the County Labour Board, the Swedish Association of Local Authorities and the County Council are also represented.

In addition to these bodies, each regional committee includes a coordinator appointed by the head office in Stockholm. This person is responsible for monitoring that the implementation of the scheme meets the central guidelines. Employer and employee organisations play an essential role in initiating and carrying out projects within this scheme, reflecting the belief that an initiative for change always comes from the individual workplace and that without consensus between management and employees, there is no basis for successful change. This structure reflects an additional aim within the scheme, that of promoting regional cooperation.

⁽⁴²⁾ The number of SMEs is based on the statistics of 1996 (ENSR, 1997).

The total budget for the programme is over SEK 5 billion (EUR 583 million). Participating companies contribute 50% or more of the costs; the Swedish government and the EU Social Fund share the rest of the costs equally. Of the total budget, 15% has been allocated to small, public sector health and welfare organisations. This atypical approach of creating budgetary targets for specific public organisations is due to the lack of distinction within Swedish labour legislation between private- and public-sector employees. All employees at risk of unemployment, therefore, are included within the scheme. As employees working in the healthcare and welfare sectors are often lower-skilled women, this fulfils one of the aims of Objective 4 schemes: to foster equal opportunities within the labour market.

The programme has been marketed through, and by, different employer and employee organisations. It has been introduced to potential target groups primarily through various meetings and other forums where they could be more easily reached. Separate 'information meetings' were also held where interested parties could receive more information about the measure through presentations by enterprises that had already participated the scheme.

These marketing activities and information provisions were supported by a limited number of advertisements in local papers, printed material and individual visits to companies that could potentially need the programme. Later in the programme, the distribution of information on good practice, both nationally and locally, has become the basis for encouraging new participants.

2.12.2.1. Eligibility criteria

The subsidy is intended for SMEs with less than 50 employees, although there are regionally based criteria concerning enterprise size. In some regions the measure is only available to very small enterprises with less than 10 employees, whereas in some other regions the measure is available to SMEs with up to 250 employees. If an SME is part-owned by another company, then the total size of the group must not exceed the regionally based criteria for enterprise size in terms of employees. A further criterion is that the enterprise must be independent, i.e., franchisees may not be accepted or at least their eligibility is considered carefully. SMEs can make joint applications for the scheme if, for example, several small enterprises form a business network and want to improve the competitiveness of the whole network.

2.12.2.2. Operation of the measure at enterprise level

Each company must define its own business concept and on the basis of this, design its own renewal and competence development plan, including costing and timetable, to apply for a subsidy from the scheme. Decisions on whether funds should be made available are made on a case by case basis taking into account the needs of individual enterprises and their employees.

There are two steps within the scheme: analysis and action/change or planning and implementation. Both can be subsidised on the basis of employee numbers within the enterprise. In Step 1, management and employees should carry out a joint and detailed analysis of their operating processes and procedures: where does the company stand today? how well does its current expertise match requirements?; where is the company going? Special attention must be given to the particular conditions of women in working life. Using the business concept, the company and its employees draw up guidelines for developments during the coming year. It may be a question of developing new products or finding new markets for existing products. The employees and the company should ask how their joint efforts could enable the targets to be reached. A new way of working may be needed, in addition to greater expertise and the necessary training. The Step 1 analysis should aim to encourage dynamic changes in the work organisation: it serves as the company's plan of action.

Normally an enterprise can take six months to implement Step 1 of the scheme. After the training plan has been designed, it has to be approved by the programme headquarters in Stockholm, which subsidises half of the direct costs incurred by the company in carrying out Step 1, enabling the company to engage outside experts if necessary. It is possible for an enterprise to decide not to participate in Step 2 of the scheme. This has typically occurred when the enterprise has discovered, after the analysis step, that the necessary competences already exist.

Step 2 of the scheme ('change, implementation') is execution of the necessary action outlined at the end of Step 1. There are no formal restrictions on what kind of training an enterprise should offer its employees in Step 2; the enterprise decides its own needs. In Step 2 employees are offered training to develop their competence in line with their objectives in, for example, language, maths, information technology, production technology, economics, logistics, internationalisation, or product development.

In implementing Step 2, the enterprise and its employees are encouraged to create an atmosphere in which positive change is a constant and natural element of day-to-day life. An enterprise may feel that it is essential to train personnel to work as part of a team in which the individual worker takes more responsibility. Some may come to the conclusion that a few, specific measures would be sufficient, while others invest in far-reaching, fundamental changes. The duration of Step 2 is dependent on the enterprise's development project, but it typically lasts between 12 and 18 months.

Given the very different aims which might be attached to the training involved in Step 2, there are a number of ways in which the training has been executed; they include training at the workplace, with internally or externally organised training and external training outside the workplace.

2.12.2.3. Funding mechanism

The enterprise pays for at least half of the training costs, while the rest is subsidised by the State and the EU in equal proportion. There is an upper limit for the costs that can be subsidised within Stage 2 of the programme, which differs according to enterprise size, as can be seen in Table 25.

Table 25 Maximum amount of training costs according to enterprise size

Size of enterprise	Acceptable costs per enterprise	
	EUR	SEK
1-5	7 699	66 000
6-10	13 999	120 000
11-20	25 198	216 000
21-35	35 931	308 000
36-50	40 831	350 000
51-100	55 996	480 000
101-150	61 246	525 000
151-250	69 995	600 000

Source: Swedish EU Programme Office, 1996.

The table shows the maximum costs covered for Step 2 when the scheme was introduced. Experience during 1996 and 1997 indicated that these levels were too high, i.e. maximum costs exceeded the funds required. At the end of 1997, therefore, they were lowered. Apart from restrictions on the maximum levels of funding available, there is no limit on the number of training days per enterprise or per individual. The SME is also free to choose its own training provider.

Reimbursable costs include employee wages (including social costs and holiday pay) during the training period. The costs of using external consultants to analyse enterprise training needs are also reimbursable. Only those costs which have been incurred after a successful application has been made to the programme can be reimbursed: training already in progress cannot be included. While the definition of costs within the scheme is applicable throughout the country, there are regionally based definitions for some admissible expenses.

2.12.3. Evaluation

2.12.3.1. Take up of the measure

The Swedish EU Programme Office estimates that close to 300 000 employees will have participated in the programme by the end of 1999, representing approximately 17 000 enterprises. The fact that the measure is aimed mainly at SMEs with less than 50 employees is evident from the size class distribution of participating enterprises in Step 1 of the

programme. Of participating enterprises, 94% had less than 50 employees, 55% of these employed less than 10 people and 6% of participants were medium-sized (51 to 250 employees).

2.12.3.2. The efficiency and effectiveness of the measure

The Swedish programme is generally considered to be largely successful. One of the most important sources of evaluative information is a survey undertaken by IM-Group in the autumn of 1998 directed at representatives of employees and management of approximately 1 300 companies participating in the programme. A number of interviews with representatives of a variety of organisations, e.g. regional project coordinators and members of the monitoring committee, and a comparative study made with similar companies which had not participated in the scheme were also conducted within this study. The following points were noted in the evaluation.

The level of commitment is high. Of the participant SMEs, 97% had completed Step 1 in the programme and 87% of these went on to complete Step 2. This means that 84% of all participants completed both Steps 1 and 2. Approximately 6% of all SMEs⁽⁴³⁾ in Sweden participated in the scheme. In SMEs with less than 50 employees, (which was the general target group) the share is a bit lower, approximately 5.7%.

Positive effects were identified in a majority of the workplaces regarding the development of competences relevant to several types of work tasks in the organisation. Many participants have also experienced an increase of 'development competence', i.e. an increased interest in training. Many employees have gained a better overview of their enterprises' activities, thereby strengthening their position in the internal labour market.

An employment-generating effect was also identified with the scheme in the IM-Group evaluation: a large number of new job openings and a reduction in dismissals have been viewed as consequences of the scheme. According to another study (TEMO-study, 1998) conducted at the beginning of 1998, approximately 20% of participating enterprises had recruited new staff, and an additional 40% were planning to do so in the near future. Also, approximately 20% of participating enterprises stated that the training helped some of their employees to maintain their jobs. It should be noted, however, that it has not been possible to identify how much deadweight was attached to the scheme, i.e. it is difficult to establish whether the new jobs would have occurred due to other enterprise actions or changes in the business environment. It was also not possible to establish what step of the process triggered these benefits or the point at which the benefits were realised. It can be argued, however, that the original objective, i.e. 50% of SMEs participating in Step 1 maintaining or increasing their number of staff 18 months after completing Step 1, has been met.

⁽⁴³⁾ The number of SMEs is based on the statistics of 1996 (ENSR, 1997).

In a concluding section of its evaluation, the IM-Group states that the implementing organisations have worked well and encouraged active regional partnership, which was one of the secondary aims of the measure. The participating SMEs indicated their confidence in the support provided. The single most successful factor was identified as the use of the two-step model throughout the various projects. It was also viewed as positive that the workplace was used as a platform for learning and education, even for general skills.

Overall, the measure seems to have been quite a success. A possible area for further development is a need to encourage a larger number of smaller companies to participate in more networks, which was identified in the evaluation as a partly unused potential. In addition, some criticisms were made about the gender equality issue mentioned in the objectives of the scheme, since it was not an issue within the implementation of the scheme. While the original measure was applicable only during 1996-99, it will be available during 2000-06 under the new Objective 3 programme. Its exact features have not yet been established.

2.12.4. Conclusions

The growth potential Objective 4 programme has been guided by the rationale that employees and enterprises within those sectors and areas undergoing structural changes need to be supported. One guiding principle has been that through training, individuals can better guarantee their future chances for employment. Another is that employee training benefits the company as a whole by enhancing its productivity and competitiveness, and in turn, will eventually lead to growth and new employment possibilities. In addition, the scheme aims to encourage a positive attitude towards training and its potential benefits amongst individuals and enterprises. The measure has targeted, with some exceptions, SMEs with less than 50 employees.

The Swedish approach stresses a holistic perspective to the improvement of productivity and quality in the sense that training alone is viewed as insufficient unless it is combined with change and renewal in an organisation's structure. This approach is also reflected in the implementation process of the scheme, which consists of two steps. During Step 1, enterprise management and employees analyse together the need for new skills and for the reorganisation of work. In Step 2, the planned development projects and training courses are implemented.

According to the evaluations, enterprise and employee participation in the scheme has been high, although the objectives for a number of participant enterprises have not quite been met. The level of commitment to training and development projects has also been judged as high, since 97% of participating enterprises concluded at least Step 1 of the scheme. The effectiveness of the measure has been satisfactory in quantitative terms: approximately 60% of participating enterprises stated that after completing the scheme they had recruited new staff or intend to do so in the near future. The exact effect of training and development projects to these figures, however, is not necessarily that simple and straightforward.

Improvements have also been registered in participants' attitudes towards training. Thus the measure has managed to tackle the problem of the unwillingness of some SMEs to invest in training. The division of the scheme into two steps, whereby subsidies also cover the planning of training, has also been useful in this respect. This is an important aspect since, in the literature, a lack of resources to plan training activities properly has been registered as a clear obstacle to investing in training by SMEs.

Figure 6 Two representative cases of SME competence development under the growth potential Objective 4 programme

Case 1 – Lingbo Production AB in Ockelbo, Sweden

This is a manufacturing company producing heating devices for houses and ships. It has 43 employees (6 women/37 men) and participated in the growth potential Objective 4 programme between October 1996 and December 1997, targeting both employees and management.

Funding. Of the total project cost of SEK 1 879 000 (EUR 219 202), the company provided SEK 1 329 000 (EUR 155 040), i.e. approximately 70% and the EU and the Swedish government each provided SEK 275 000 (EUR 32 081), approximately 15% each.

Operation. An analysis of competence development needs and business growth up to the year 2000 was produced. This was made in accordance with the 'operative profitability model': this means that all employees in the company should learn the importance of profitability and its preconditions and become aware of the relations between manufacturing and sales volumes, incomes, productivity, costs, need for capital, etc. The results from the analysis of the enterprise's need for skills and knowledge served as an action plan to be implemented in 1997 (Step 1).

The plan was implemented through eight different projects and an encompassing programme for individual competence development (Step 2). All employees including management were included in the competence development plan, although participation was voluntary. The central feature of the action plan was the development of teamwork through broadening the employees' range of competences/skills to a larger part of the production process and a greater degree of influence in the work process. An important part of the competence development plan was that each employee developed their skills through learning to manage several operations in the production process.

Evaluation. According to the business manager and an employee representative, the project was very successful. The production process improved through reductions in production time. The most important factor was an increased effectiveness through teamwork that reduced the friction between different task-units within the production process.

Case 2 – Pappershuset

This company sells office supplies. It was established in 1993 with three employees. Four years later after fast growth, it employed 18 people. This level of growth required some organisational restructuring and employee development. The company, both management and employees, participated in the growth potential Objective 4 programme from August 1996 to December 1997.

Funding. Of the total project cost of SEK 1 103 000 (EUR 128 675) the company provided SEK 768 000 (EUR 89 594) – approximately 70% and the EU and the Swedish government each provided SEK 167 500 (EUR 19 540) - approximately 15% each.

Operation. The main objective was to develop new forms of cooperation within the company, to raise the quality of the services they offer their customers and to spread technological skills to a larger share of the employees in order for them to become more flexible and to handle peaks in demand. In the first phase (Step 1) an analysis of the company was produced. This was aimed at detecting weaknesses in terms of organisation and competence. Based on this, an action plan was developed and was realised in the next phase (Step 2). Some of the areas where competence development was needed were economy, IT, purchase procedures and sales. The strategy included the use of external expertise and training.

Evaluation. According to the manager and an employee representative, the project was successful. The company manager appreciated the use of external expertise: ‘Without an external force to put pressure and guide the process of change and development, it is easy for the daily work to get in the way’.

3. Discussion and conclusions

Section 2 provided a range of policy examples designed to assist SMEs with their investment in continuing training. The cases are representative of different approaches rather than exhaustive of the variety of schemes that often coexist within countries. Some cases described are solely targeted at SMEs, whereas others are more general policies which specify a different treatment of SMEs in one way or another. The cases depicted operate at different administrative levels (EU, national, regional, sectoral), using a range of funding mechanisms with different levels of financial support. The principles underpinning the cases often vary, as do the eligibility criteria and operational aspects. Many of the cases are similar in one or more of these aspects, although no two cases are the same.

This part of the report contains three main sections. The first examines the main descriptive points of the case studies, summarising their characteristics. The second concentrates on the effectiveness of the various funding schemes: it discusses several methodological issues surrounding the evaluation of funding programmes and the evaluative data included within the cases in terms of cost-effectiveness, for both the funding body and SMEs. The concluding section outlines several recommendations, made on the basis of what works well within the different cases, and presents some conclusions.

3.1. Main descriptive characteristics

Figure 7 below shows how the characteristics of the schemes described vary. Many are subsidies or grants, but also levy schemes (the Dutch metalworking sector scheme, the French levy scheme, the Spanish Basque agreement for continuing training) and loans (the Finnish business development loan – BDL- and the British small firms training loan –SFTL). One fundamental point illustrated within the figure is the newness of many of the schemes. The earliest exemplified are the Finnish BDL (introduced in 1971) and the French levy for continuing training (also introduced in 1971, although the special funding provisions for very small enterprises were not introduced until 1991). The Dutch metalworking sector training fund was introduced in the 1980s, as was the French EDDF scheme. The remaining cases were introduced in the 1990s, many of them in the latter half. This seems to reflect the recent policy emphasis on the importance of SMEs to the economy and of training within SMEs to maintain and increase their competitiveness.

Figure 7 also highlights the differences between schemes with the same aims. Most are administered, operated and funded in very different ways. Some of the schemes are closely linked to the number of employees within SMEs, whereas others contain SME-related training priorities within more general policies to encourage enterprise training.

Figure 7 Summary of the schemes: major descriptive characteristics

Scheme	Main aims (others)	Administration and operation	Target group/eligibility	Funding/allocation mechanism
Wallonia voucher scheme (Belgium) Established 1998	Stimulate SME investment in training. (Encourage training for industrial workers.)	Government of the Walloon region provides subsidies through vouchers. 1 voucher = 1 training hour. Training providers accredited.	VAT registered SMEs with <50 employees in French speaking Wallonia.	Subsidy of BEF 600 (EUR 14.87) per voucher worth BEF 1 200 (EUR 29.75) covering training and wage costs. Eligible SMEs receive the same subsidy.
EEDCs (Finland) Established 1997	EEDCs combine various services in one place. One service is to support training in SMEs.	Regional bodies combining three ministries within EEDCs which supply free or discounted courses to SMEs.	All SMEs with <250 employees.	Subsidies from 0–100% for training supply, dependent on enterprise ability to pay.
Business development loan - BDŁ (Finland) Established 1971	Support SME competitiveness (including training) through development projects.	State-owned financing company organised on a regional basis (Finnvera) provides loans with preferential conditions linked to a development project outside the daily operations of the enterprise.	All SMEs with <250 employees, some sectoral restrictions.	Loan can cover salaries, costs of external services, etc. for between 50–70% of total project costs. Two-year repayment holiday. Finnvera receives State subsidies to keep interest rates/security requirements low.
Enterprise levies (France) Established 1971	Ensure investment in continuing training by all enterprises. Special arrangements for SMEs.	OPCAs (social partner organisations) collect funds. Enterprises with >10 employees contribute approximately 1.1% of total wages to continuing training. Those with <10 employees contribute 0.15% of the 0.25% levy.	All enterprises. For those with <10 employees the contribution is mutualised in OPCAs. Enterprises with >10 employees only pay unspent amounts.	Reimbursement available for preparing and implementing a training plan. Both training and wage costs are covered.
Engagement de développement de la formation - EDDF (France) Established 1984	Help enterprises adapt their employees to changing skills needs.	Ministry of Employment and Solidarity (at national, regional or sectoral levels) provide subsidies for enterprises committed to increasing their training expenditure.	All enterprises but especially for SMEs with less than 250 employees.	Subsidies (up to 70%) for enterprises with <500 employees (50% for those with >500). Each trainee must undertake at least 39 hours of training. Based on agreements between national/regional Ministry and national/regional sectoral organisations or groups of companies.
Aide au remplacement d'un salarié en formation (France) Established 1991	Support training in SMEs. (Also, help employees take advantage of individual training leave opportunities.)	Regional and local offices of the Ministry of Employment and Solidarity provide subsidies (linked to training plans) for SMEs to cover part of the costs of replacement employees when an existing employee attends training.	Privately-owned SMEs with <50 employees.	Fixed subsidy of FRF 3 000 (EUR 457) per month (on basis of 169 working hours). Training must be professionally related, taken outside of working hours (at least 120 hours) at an external provider. Replacement worker must be from outside of the enterprise. Based on agreements between the enterprise and the regional/local levels of the Ministry of Employment and Solidarity.

Small firms training loans - SFTL (Great Britain) Established 1994	Stimulate SME investment in training by overcoming capital market imperfections.	Public/private partnership between the Department for Education and Employment and eight commercial banks. Loans scheme linked to a training plan.	SMEs with <50 permanent employees.	Loans for consultancy and training costs (up to 90%). Set maximums per trainee. Loans can cover replacement employee wage costs. Repayment holiday depends on loan size. Amount of funds available decided between banks and government. Loans granted according to less stringent but commercial criteria.
Training support scheme - TSS (Ireland) Established 1990	Support SME competitiveness by improving employee skills. (Certain training is prioritised.)	Training and Employment Authority (FAS) provides grants linked to a business development plan.	SMEs with up to 500 employees in a variety of sectors.	Grants from 20-80% of training costs, depending on enterprise size. First come, first served until budget allocated. Maximum grant levels per enterprise per year.
Metalworking sector (The Netherlands) Established 1985	Encourage training through a training fund. (Priority for specific groups, e.g. female employees.)	Sectoral body collects 0.55% of total wages from all enterprises in the sector for training fund. Sectoral body targets SMEs to encourage them to use the fund. Subsidies linked to training plan.	All enterprises in sector are eligible. Specific information/consultancy schemes for SMEs especially those with <20 employees.	Percentage reduction for training purchased (usually 50%). Information and consultancy services for SMEs are free.
Medida rotação emprego/formação (Portugal) Established 1999	Support SME participation in training and improve employability by offering unemployed people an opportunity to gain workplace experience. For SME employees, priority for those with no professional qualifications.	Institute for Employment and Vocational Training - IEFP provides subsidies to cover the costs of replacement employees when an existing employee attends training. The replacement employee is an unemployed person.	All SME employees, priority to those with <50 employees. Training must occur during work-time and last between 1-12 months. It must be relevant to the enterprise and give the employee a qualification.	Assistance for SMEs to organise training. Replacement employee costs are paid and a subsidy of 20% of the national minimum wage is available to cover some of the costs of staff members monitoring the replacement worker. Enterprises apply to the IEFP with a training plan and documentation as to their tax/social security contributions.
Basque agreement for continuing training (Spain) Established 1995	Foster training within enterprises and employees in the Basque region.	Hobetuz: comprising social partner and Basque government representatives. Enterprises in the region (and Spain) contribute 0.35% of total compulsory social security contributions to a training fund..	All enterprises but special arrangements for those with <50 employees which have to present a 'grouped' training plan.	Based on the training undertaken by enterprises, training providers are funded. Funds allocated on case by case basis.
Growth potential Objective 4 (Sweden) Established 1996	Support SME competitiveness through improving employee skills. (Focus on those with low/outdated education/ training.)	National and regional offices with social partner representation provide subsidies linked to competence development plan. Two steps: (a) identify action, (b) implement change.	Varying eligibility depending on region. Usually for SMEs with <50 employees.	50% subsidy (maximum monetary amount for Step 2). Subsidy covers training and wage costs and is dependent on eligible SME size.

Section 1 outlined a number of obstacles, indicating why SMEs invest less in training than their larger counterparts and various rationales underlying SME-targeted funding. In the figures and discussion below, the rationales of the schemes have been categorised in terms of three separate dimensions: the first relates to the market failures that the scheme is intended to address; the second to whether the measures are aimed solely at SMEs or combined with other public policies and priorities; the third describes the schemes according to their primary target group. Many of the schemes attempt to overcome a variety of obstacles to training investment, include various target groups and are integrated within other, more general SME-targeted schemes and/or within schemes to encourage more training amongst enterprises of all sizes. Other characteristics explored are who funds the schemes and eligibility criteria.

3.1.1. Obstacles addressed within the schemes

Figure 8 Classification of schemes according to the obstacles they attempt to overcome

Unfamiliarity with training or resistance to training	Wallonia voucher scheme (Belgium) Enterprise levies (France) Small firms training loan - SFTL (Great Britain) Metalworking sector (The Netherlands) Growth potential Objective 4 (Sweden)
Lack of resources to plan training and find the right training options	Wallonia voucher scheme (Belgium) Employment and economic development centres - EEDCs (Finland) Business development loan - BDL (Finland) Small firms training loan - SFTL (Great Britain) Metalworking sector (The Netherlands) Basque agreement for continuing training (Spain) Growth potential Objective 4 (Sweden)
Lack of financial resources for training	Wallonia voucher scheme (Belgium) Employment and economic development centres - EEDCs (Finland) Business development loan - BDL (Finland) <i>Engagement de développement de la formation</i> - EDDF (France) <i>Aide au remplacement d'un salarié en formation</i> (France) Small firms training loan - SFTL (Great Britain) Training support scheme - TSS (Ireland) Metalworking sector (The Netherlands) <i>Medida rotação emprego/formação</i> (Portugal) Basque agreement for continuing training (Spain) Growth potential Objective 4 (Sweden)

The above figure groups the various obstacles for SMEs to invest in training according to the three main categories used in Section 1 of the report. These are process-based categorisations: SMEs which are reluctant to invest in training are unlikely to plan their training activities and/or to seek training options or allocate internal, or look for external, funding. Many of the schemes, therefore, cross the categorisations of obstacles. For example, the Belgian Wallonia voucher scheme uses a financial incentive to encourage SMEs to participate in training, thereby attempting to overcome both disinterest on the part of SMEs and their potential lack of financial resources.

Most of the schemes link the issue of planning training needs with their eligibility criteria for funding, although there is a slightly different emphasis depending on the perception of the obstacles. Many schemes link the issue of planning with the availability of funding, on the assumption that the SME has identified its own training needs but lacks access to funding (e.g. the French EDDF and the Irish TSS). Other schemes fund the planning process as a first step to realising that there is a need for training within the enterprise, before funds are available to support training costs (e.g. the Swedish growth potential Objective 4).

The way the authors of the various schemes perceive the obstacles can be seen not only in the choice of funding mechanism (subsidies, loans, levies, etc.) but also in the type of costs that the scheme covers, e.g. costs of planning training, costs of participating in training, incidental costs (training materials, travel costs, etc.), wage costs for the participant and wage costs of a replacement worker. This is discussed in more detail below.

3.1.2. Specific or integrated policies

Figure 9 Primary aims of the schemes

Targeted at encouraging training in SMEs (or in all enterprises)	Wallonia voucher scheme (Belgium) Employment and economic development centres - EEDCs (Finland) Enterprise levies (France) <i>Engagement de développement de la formation</i> - EDDF (France) Small firms training loan - SFTL (Great Britain) Training support scheme - TSS (Ireland) Metalworking sector (The Netherlands) Basque agreement for continuing training (Spain) Growth potential Objective 4 (Sweden)
Targeted at general SME economic development	Business development loan - BDL (Finland) Growth potential Objective 4 (Sweden)
Also targeted at employees and/or specific or other groups, e.g. unemployed people, women, lower-skilled workers, etc.	Wallonia voucher scheme (Belgium) Enterprise levies (France) <i>Aide au remplacement d'un salarié en formation</i> (France) <i>Engagement de développement de la formation</i> - EDDF (France) Metalworking sector (The Netherlands) <i>Medida rotação emprego/formação</i> (Portugal) Growth potential Objective 4 (Sweden)

As indicated in Section 1 of the report, there are a number of rationales for targeting training policies at SMEs. Research evidence indicates that workforce training benefits both employees and enterprises. The observations from the continuing training survey (European Commission, 1999) indicated that SMEs support, and their employees participate in, less training than large enterprises. Hence there is an argument that both SMEs and their employees are at a disadvantage. For this reason, some policies and schemes have been formulated to target training as a discrete activity.

Other evidence in Section 1 indicated the significance of SMEs in terms of employment share (as well as a source of employment opportunities) and potential growth. Hence a further rationale for policies is to assist SMEs to respond to structural change and to enable them to

develop and innovate, in order to foster growth: training can be one important element within this. Regarding the potential for employment growth in SMEs, job rotation schemes⁽⁴⁴⁾ can, at the same time, introduce new employees in a cost-free, controlled and temporary way and support SMEs and their employees in fulfilling their training requirements.

Two of the schemes (the Portuguese *medida rotação emprego/formação* scheme and the French *aide au remplacement d'un salarié en formation*) combine support for training in SMEs with employment policy through funding an unemployed person as a replacement worker for the SME sending an employee on a training course. Many of the other schemes contain certain priorities to encourage equal opportunities, for example gender equality (Swedish growth potential Objective 4), or target groups viewed to be in most need of training such as lower-skilled people (Wallonia voucher scheme, Belgium).

Many schemes have a slightly different emphasis on the balance between increasing SME competitiveness and ensuring equal access for their employees to training. For example, the Wallonia voucher scheme is primarily aimed at improving SME business performance through training, but has as a specific priority to attempt to increase participation from lower-qualified workers. The French *aide au remplacement d'un salarié en formation* scheme also aims to equalise the ability of workers in SMEs to take advantage of their right to individual training leave. The Finnish BDL and EEDCs, the French EDDF and the Swedish growth potential Objective 4, however, are designed more to assist SMEs to adapt their businesses to structural change with different emphases on the role of training within that process.

3.1.3. Target groups

Figure 10 Size of SMEs targeted

Small enterprises 0-49 employees	Wallonia voucher scheme (Belgium) Small firms training loan - SFTL (Great Britain) <i>Aide au remplacement d'un salarié en formation</i> (France) Growth potential Objective 4 (Sweden) (in some cases also for medium-sized enterprises)
All SMEs	Employment and economic development centres - EEDCs (Finland) Business development loan - BDL (Finland) Training support scheme - TSS (Ireland) (up to 500 employees but additional support for smaller enterprises) <i>Medida rotação emprego/formação</i> (Portugal) (priority for those with less than 50 employees)
All enterprises	Enterprise levies (France) (special contributions for enterprises with less than 10 employees) <i>Engagement de développement de la formation</i> - EDDF (France) (priority for SMEs with less than 250 employees) Metalworking sector (The Netherlands) (those within the sector) Basque agreement for continuing training (Spain) (special arrangements for enterprises with less than 50 employees)

⁽⁴⁴⁾ More information on job rotation schemes operating within the European Union can be found in a forthcoming Cedefop report - Agora VIII: Job rotation (Cedefop, 2001)

The figure above shows the complexity of some of the schemes' targeting arrangements. A number are aimed at all enterprises irrespective of size; although some contain specific SME priorities, such as the French EDDF. Those measures targeted at SMEs tend to follow the EU definition, although the Irish TSS defines its target group as enterprises with up to 500 employees. Again, within these measures, some contain specific priorities for smaller enterprises: the Irish scheme includes increased subsidy levels for enterprises with less than 20 employees and those with between 21 and 50 employees. A number of other schemes also offer varying rates of subsidies, enterprise size can be one criterion, for example, in the Finnish EEDC scheme.

Many of the cases target only small enterprises according to the EU definition (i.e. those with less than 50 employees); medium-sized enterprises are not covered at all. Much of the information included in Section 1 on the training patterns between different size categories within the term SME give some indications as to why only small and very small enterprises might be targeted. For example, approximately 50% of small enterprises offer continuing vocational training compared to approximately 80% of medium-sized enterprises and 90% of large enterprises (see Table 4). In the same way, it is small enterprises that are much less likely to have a training plan and budget (11%) compared to medium-sized enterprises (33% for enterprises with 50-99 employees and 47% for 100-249 employees) and large enterprises (54% or more in size categories above 250 employees).

3.1.4. Level of funding

In Section 1 of the study, several possible levels of organising/granting schemes were identified, ranging from local to national and EU level schemes. Figure 11 below draws together the various levels included within the cases examined.

Figure 11 Funding schemes according to level and basis for cofunding

Scheme	Cofunding partners and ratios (if possible)	Basis for cofunding
Wallonia voucher scheme (Belgium)	Regional authorities (50%) and SMEs (50%).	Average wage cost plus average training cost, i.e. similar to all SMEs.
Employment and economic development centres - EEDCs (Finland)	National authorities, EU and SMEs.	The amount of subsidy is dependent on an enterprise's ability to pay. Decisions are made at training course or branch level. Also for start-ups and very small enterprises the subsidy is higher.
Business development loan - BDL (Finland)	National authorities and SMEs.	Reduced rate of interest and repayment holiday plus shared risk in terms of low securities. In rare cases loan may be changed to subsidy.
Enterprise levies (France)	No real cofunding mechanism. However, in practice some enterprises receive cofunding from others through the mutualisation process.	Contributions are mutualised and available for other enterprises.
<i>Engagement de développement de la formation</i> - EDDF (France)	National and regional authorities, EU (jointly 50-70%) and enterprises (SMEs 30%, over 500 employees; 50%).	Agreements at branch level or case by case (enterprise level).
<i>Aide au remplacement d'un salarié en formation</i> (France)	National authorities and SMEs.	Replacement worker's wage based on average wage per working hour i.e. similar to all SMEs.
Small firms training loan - SFTL (Britain)	National authorities and SMEs.	Reduced rate of interest and repayment holiday. The loan itself is of commercial nature.
Training support scheme - TSS (Ireland)	National authorities, EU and SMEs.	Varies according to enterprise size. Approval on 'first come, first served' basis. 50% of funds reserved for SMEs <50 employees, 30% for SMEs with 51-200 employees and 20% for SMEs with 201-500 employees.
Metalworking sector (The Netherlands)	National authorities and enterprises. In addition smaller enterprises may receive cofunding from larger enterprises.	In practice smaller enterprises can receive more State financed free assistance in planning training. Scheme has redistributive function due to its nature, i.e. it is a collective training fund.
<i>Medida rotação emprego/formação</i> (Portugal)	National authorities and SMEs.	Technical assistance for enterprises in planning training programmes. Replacement worker's wage based on national minimum wage level, i.e. similar to all SMEs.
Basque agreement for continuing training (Spain)	National and regional authorities, EU and SMEs.	Case-by-case basis.
Growth potential Objective 4 (Sweden)	National authorities and EU, jointly 50%, and SMEs, 50%, but variations in subsidy level.	85% of funds are allocated to SMEs (<50 employees) and 15% to small public sector health and welfare organisations. Decision on funding made case by case based on SME development plan. Within stage 2 (actual training) amount of subsidy varies according to number of employees.

The most common level of funding is national, although regional authorities as well as EU level funding are also included in many cases. Of particular interest is the complex issue of cofunding, which varies from one scheme to another. Typically, funding is a joint action between public authorities and private enterprises. Examples of regional cofunding can also

be found, such as the Belgian Wallonia voucher scheme. Also, EU part-funded measures may be available, as in the case of Swedish growth potential Objective 4 and the Spanish Basque agreement on continuing training. In some instances, cofunding originates from other enterprises, such as in the Dutch metalworking sector and French levy schemes.

All the schemes require some financial participation from the applicant enterprise, although the level varies substantially. For example, the British SFTL is cofunded by the State to the extent of the interest costs during the holiday period (i.e. subsidy of only a few percent), whereas the subsidy levels of the Irish TSS and the Finnish EEDC scheme are approximately 50%. Particularly interesting are the schemes where cofunding originates from other enterprises, as with the Dutch metalworking sector scheme and the French levy scheme, which have established collective funds where any enterprise may apply for funding above their own contribution. Within these schemes the degree of cofunding is dependent on an enterprise's own activity in applying for funding; i.e. in some instances the amount can be substantial, whereas in others an enterprise may be paying more than they recoup.

The subject of cofunding also includes possible variations in amount of public (or other) support according to enterprise size or other criteria. For example, the Irish TSS favours smaller enterprises. The amount of subsidy in the Finnish EEDC scheme is based on enterprises' ability to pay, which in practice means that the subsidy is higher for start-ups and smaller companies. Case-by-case decision for funding, in turn, is made within the Spanish Basque agreement for continuing training. The Belgian Wallonia voucher scheme, the French *aide au remplacement d'un salarié en formation* and the Portuguese *medida rotação emprego/formação* are based on average training and/or wage costs.

3.1.5. Eligibility criteria

Most schemes presented in Section 2 include numerous regulations concerning eligibility criteria (in addition to enterprise size) and application procedure. These include criteria such as:

- acceptable type and costs of training;
- personnel which can receive the training;
- length of training time;
- planning procedure;
- maximum amount of support in both monetary terms and length of time;
- requirements concerning the training provider.

These topics are presented in the following figure.

Figure 12 Funding schemes according to terms and conditions for applying

Scheme	Type of training (personnel targeted)	Type of costs	Planning criteria	Maximum amount and length of support	Training provider
Wallonia voucher scheme (Belgium)	Formal (external), during working hours, participants receive their usual wage. Cannot be in conjunction with other support for same training. (No specifications of personnel type.)	Training and wage costs.		400 hours per year per company.	Accreditation is required.
EEDCs (Finland)	Formal, external. (No specifications of personnel type.)	Training costs.	No limitations.	No limitations.	Courses organised by EEDC.
Business development loan - BDL (Finland)	Training tied to a development project. SME must have a stable business with the likelihood of future profitability. (No specifications of personnel type.)	Both training and salary costs, material costs, marketing costs.	Written development plan (timetable, resources, activities); training must be outside of the SME's daily operations.	No information.	No information.
Enterprise levies (France)	Formal, both internal and external. (No specifications of personnel type.)	Training costs, wage costs, training related costs (materials, travel, etc.), trainer costs for internal training.	No limitations.	No information.	No information.
EDDF (France)	Formal (external), must last at least 39 hours per employee. (No specifications of personnel type but sexual equality to be promoted.)	Direct training costs which must be above the legal minimum, (enterprise must commit to an increased investment as compared to past 1, 2 or 3 years).	Training plan required.	Agreements last at least two years. Available once per enterprise.	No information.
Aide au remplacement d'un salarié en formation (France)	Formal (external), professionally related training (higher level of education or re-training), must take place during working hours, minimum duration 120 hours (No personnel specifications except that scheme is not available for employees who work as apprentices).	Wage costs for the replacement worker.	Training plan required or scheme must be part of individual training leave. Limitations also for the replacement worker.	EUR 457 per month per replacement worker. Two years maximum support.	No information.

Small firms training loan - SFTL (Great Britain)	Formal, both internal and external. (No personnel specifications.)	Consultancy in planning, training and related costs (material, accommodation, travel), wages of replacement worker; trainer costs for internal training; some other costs.	Training plan required (accepted by employees), other funding for the training proposed is not allowed.	According to number of trainees (EUR 813 to EUR 203 383) per company; individual maximum EUR 16 271 and overall average per trainee EUR 8 135. Maximum repayment time of seven years plus repayment holiday (26-52 weeks).	Only reputable organisations are accepted.
Training support scheme - TSS (Ireland)	Formal (external); priority areas e.g. strategic planning, management, technology, marketing, languages. (No personnel specifications.)	Training costs.	Training need has to be clearly identified and linked to business plan.	EUR 38 092 per year per company and EUR 4 444 per employee per year. An SME needs to make a case for continued funding after two years of support.	Chosen freely but monitored to ensure quality.
Metalworking sector (The Netherlands)	Formal (external); Related to human resource and organisation policies. (Priority for e.g. females, those over 40, lower-qualified employees.)	No information.	Training plan is usually required with reference to special target groups.	No information.	No information.
Medida rotacão emprego/formação (Portugal)	Formal (external), during working hours, between 1-12 months, leading to a qualification of direct interest to enterprise. (Priority for lower-qualified employees.)	Wages of replacement worker and wages of the employee monitoring him/her.	Training plan required.	12 times national minimum wage per month plus 12 times 1/5 of national minimum wage per month. Maximum training time of 12 months per employee.	No information.
Basque agreement for continuing training (Spain)	Formal (external).	Training costs, preparation of training plan, individual training leave and activities to implement training.	Enterprises with <50 employees must present 'grouped' training plans.	No information.	Quality standards are expected for the near future.
Growth potential Objective 4 (Sweden)	Formal, external. (No specifications but priority to sexual equality.)	Planning training needs (expert help may be included), actual training costs as well as wage costs.	Competence development plan based on business concept is required. Plan ought to include costing and timetable.	According to employee numbers from EUR 7 699 (<5) to EUR 69 995 (151-250). No limits on training days per SME or individual. Approx. six months is allowed for the planning stage, no strict limitations for implementation stage but typically 12-18 months.	No limitations.

All the schemes refer primarily to external training. Some measures also include internal training courses: the British SFTL scheme and the French enterprise levies. Some attach other conditions to the type of training which can receive support, in terms of time and its relationship to the enterprise. For example, training undertaken through the Finnish BDL must be tied to a development project outside of the normal operations of the enterprise. In the French *aide au remplacement d'un salarié en formation* and EDDF, as well as the Portuguese *medida rotação emprego/formação*, there is a set minimum duration for the training.

The schemes examined reflect different costs within their funding structure. The Dutch metalworking sector scheme, the Irish TSS and the Finnish EEDC scheme recognise the high costs of training courses as the main financial obstacle. The Wallonia voucher and the Swedish growth potential Objective 4 schemes include both training and wage costs for the employee participating in training, thus lowering the cost threshold for training through reflecting wage payments for work not done while an employee is in training. The British SFTL allows part of the loan to be used for paying replacement workers, thereby overcoming the problem of internally organising work due to employee participation in training. Both the Portuguese *medida rotação emprego/formação* and the French *aide au remplacement d'un salarié en formation* schemes are designed specifically to overcome this obstacle for SMEs. Those schemes which provide public subsidies for wage costs (either of the employee attending training or of a replacement worker) all include a provision that the training should take place during normal working hours.

Some of the schemes also include costs for planning training, another important barrier to training as discussed in Section 1: for example, the British SFTL and the Swedish growth potential Objective 4. Other costs covered by the different schemes include incidental costs related to training; these are mentioned within the French levy scheme and the British SFTL.

Few schemes restrict the type of personnel allowed to attend training funded through the different measures. Some, however, include priority groups such as female employees, older workers and those with low qualifications (see also discussion above). There are also restrictions on the ability to use more than one funding scheme to support the same training.

Concerning the maximum amount of support available, there are cases with no limitations, but some of the schemes contain monetary or time limits which may be based on fixed criteria, such as the 400 hours of supported training per company per year within the Belgian Wallonia voucher scheme. In other measures, the upper limit of support is dependent on the number of employees and/or trainees per company, as is the case within the British SFTL and the Swedish growth potential Objective 4 scheme. The Irish TSS contains limitations per enterprise and per employee per year. Within the French and Portuguese replacement worker schemes there is a fixed amount of wage costs that can be paid per worker. For example, the Portuguese *medida rotação emprego/formação* scheme recognises wage costs that do not exceed the national minimum level per month.

The duration of the support provided by the schemes also varies. Some have no limitations, whereas in others, funding is available only for a predetermined period per enterprise. There may be a definitive maximum length of support as, for example, two years within the case of the French *aide au remplacement d'un salarié en formation*. Extensions of support may be conditional, as with the Irish TSS where the SME must make a case for continuing funding beyond two years. Also, the maximum length of support may be per employee, as in the Portuguese replacement scheme, where it is 12 months. In addition, the scheme can be based on a one-off agreement, as within the French EDDF scheme.

The above criteria all relate to the conditions of eligibility of the enterprise applying for support. In many of the cases there are also supply-side criteria concerning the choice of the training provider, such as only accepting training organised by an accredited training provider to ensure the quality of training, as in the Wallonia voucher scheme. Other approaches include that the training courses may be chosen freely, but the actions of training providers are monitored before actual training (as with the Irish TSS). The support may cover only the training organised by the funding body, as in the case of the Finnish EEDCs.

3.2. Evaluative indicators

The key points of each case having been summarised in terms of their characteristics and operation, the following text considers the evaluative material. In discussing the effectiveness of the schemes, the methodological issues that surround the data will be considered, since the validity of the results depends on items such as who is undertaking the evaluation, which factors are viewed as most important, which methodology is employed and what information is available. As all of the evaluative material originates from the country where the scheme operates, the types of factors evaluated differ. In some cases, the newness of many of the schemes outlined hinders an in-depth evaluation of how effective and efficient the various schemes are in achieving their aims.

Following the discussion of the methodological issues, the evaluative data contained in the case studies is summarised. The data on effectiveness is reviewed from two perspectives: that of the funding body and that of the SME. Also, in view of the results and earlier studies on the subject, various factors likely to be of influence are considered. The following figure summarises the evaluative information gained from the different schemes.

Figure 13 Evaluative indicators derived from the case studies ⁽⁴⁵⁾

Scheme	Evaluation	Take-up and type of training	Indicators of satisfaction/ dissatisfaction	Cost-effectiveness e.g. deadweight, administrative costs, costs/trainee etc.	Other aims/ benefits achieved?	Changes to the scheme?
Wallonia voucher scheme (Belgium)	12/98-10/99. Observations by author.	1 383 SMEs and entrepreneurs (63 188 vouchers issued). 50% of vouchers used for language courses, 25% for informatics courses.	SMEs/training providers appear content with the scheme (some negative reactions from those not eligible).	No information available.	Industrial workers have not benefited as much from the scheme.	Not to date.
Employment and economic development centres - EEDCs (Finland)	Evaluation studies of EEDCs as a whole, training services in general, standardised training products in particular.	6000 to 8000 enterprises annually (3 to 4% of all SMEs). 80-90% of participants are enterprises with <20 employees. 35% of 1998 budget allocated to managerial skills. Other common areas: entrepreneurship, marketing, adapting technologies, R&D, productivity, networking; personnel development.	Customer loyalty i.e. those familiar with the scheme are willing to re- attend the training courses. But criticisms over lack of awareness.	One evaluation study indicated that the scheme represented value for money for SMEs.	Succeeded in activating some enterprises (<10 employees) to develop through training, also the scheme has reached small service firms.	Available training course selection is changing constantly.
Business development loan - BDL (Finland)	Evaluation in 1996. Statistics of the scheme provider. Expert interviews by the author.	Number of loans varied: 177 (1992) and 364 (1996). In 1990s, 2 399 loans were awarded (approx. 1.2% of eligible enterprises). Take-up levels falling due to substitute schemes. 1/3 of take-up is from growing/developing enterprises. Training part covers 5% of total sum borrowed. 30% of the loans (1995) used for product development and technology transfers.	No information available.	No information available.	The scheme is particularly suitable for growing and developing enterprises. A third of borrowers fit this description.	No information available.
Enterprise levies (France)	Independent study (Goux – Maurin 1998); various Céreq studies and statistics.	10% of employees in very small enterprises participated in training compared to 32% in larger enterprises (1998).	Collectively enterprises spent above the legal minimum, although very small enterprises often treat the levy as a tax.	Partly ineffective since very small enterprises treat it as a tax i.e. enterprises do not train even though they are paying.		1991: scheme was extended to cover very small enterprises (<10 employees).
EDDF (France)	Secretary of State (Women's rights and vocational training) 1999; Céreq studies (1996, 1998); Regional evaluation 1997.	In 1997 total of 3 468 enterprises (accounts for approx. 0.2% of all enterprises in France). 90% had <50 employees.	Investments in training risen significantly among participants. Also some positive effects on enterprises' productivity, turnover, employment level. Some participants reported procedure was complicated and time-consuming.	Budget was EUR 44 million. On average State support was one-third of costs for training taken through the scheme.	Both qualified and unqualified workers have received training. Evidence that increased training commitment by SMEs has improved the work environment, turnover, productivity and employment levels.	No information available.

⁽⁴⁵⁾ This figure excludes both the French *aide au remplacement d'un salarié en formation* and the Portuguese *medida rotação emprego/formação*, as neither scheme includes any evaluative material to date.

Small firms training loan - SFTL (Great Britain)	Independent evaluation in 1998 (UK Research Partnership).	364 were awarded between 1994 and 1998 (accounts only for 0.03 % of eligible enterprises within Great Britain). Two-thirds were in enterprises with 5 or less employees. Almost 30% of loans are used to fund training in computer skills. Also funding acquisition of professional qualifications is popular (22%).	94% of participants state that SFTL had met most or all of their aims. But concern that there is a general lack of information about the scheme. Some wish to streamline the administrative procedure.	Some deadweight (34% of cases). Scheme has allowed more training within a shorter period of time. Administrative costs perceived as low as it is operated through commercial banks (6.5% of the average value of loans for the DfEE).	Other benefits included an increase in staff motivation and loyalty.	One bank has incorporated the scheme into its business loans. Scheme to be included in the small business service.
Training support scheme - TSS (Ireland)	Evaluation of 323 TSS participants (O'Connell and Lyons - 1995) and FAS monitoring.	4% target of all SMEs in 1999. Take-up increased from 1 204 (1991) to 2 839 (1997, 84% SMEs with <50 employees). Most TSS-aided training was for management and professional groups (management training is viewed as a priority).	TSS is oversubscribed each year.	Some deadweight in SMEs with >50 employees. TSS enterprises participated in more training than non-TSS enterprises, especially those with <20 employees. High administrative costs but promotional costs included.		Scheme focuses more on SMEs with <50 employees (especially on those with <20).
Metalworking sector (The Netherlands)	Figures from fund's administration and author observations.	Take-up increased sharply from 1 199 (1987) training days to 66 592 (1997). Training linked to the human resource and organisation policies of the enterprise.	During 1980s, fund in surplus but recently over-subscribed. Training in smallest firms (<10 employees) remains under average.	No information available.		1997 - additional efforts taken to reach the smallest enterprises.
Basque agreement for continuing training (Spain)	Observations by the author.	No information available.	No strict criteria for granting funding. Content of training is determined by enterprises. Concern that application procedure is cumbersome. Funds are not available to complete this procedure.	Some overlap between national and regional schemes.		To include quality standards for training providers. Individual employees can apply for support.
Growth potential Objective 4 (Sweden)	Swedish EU programme office (1999), TEMO (1998).	17 000 enterprises (approx. 6% end of 1999) and 300 000 employees. 94% SMEs with <50, 84% completed Steps 1 and 2. Training linked to the business development of the company.	Many participant employees indicate an increased interest in training.	No information available.	Job openings created and dismissals avoided (20% had recruited staff, 40% expected to). Encouraged more regional partnership.	Not reported.

3.2.1. Methodological issues

A solid judgement as to whether a funding programme is effective depends in part on cost-effectiveness. To gauge this, ideally three conditions must be fulfilled:

- (a) valid information on the costs incurred by the funding body has to be available;
- (b) information on a variety of variables is necessary, including take-up rates, information on deadweight and displacement;
- (c) measurements have to be made following a rigorous research-design, for instance by implementing a matched-control or randomised controlled research-design.

As might be expected, the quality of most of the information that has been collected does not meet all of these criteria. Information in most cases is limited to one-time counts of the take-up of the schemes and however informative this can be, without the option of making comparisons with a reference group, it is not enough. Within the case studies, for instance, information on take-up rates indicates that the Irish scheme has been oversubscribed, whereas the Dutch scheme has (earlier) been in surplus. However, neither of these tells much about the actual cost-effectiveness of the scheme. In schemes attracting public subsidy, high take-up rates may reflect high deadweight effects. Assuming that most schemes contain conditions to minimise deadweight (as in the case of the Irish TSS, where higher subsidies are available for small and very small enterprises) or that the measures are targeted at specific groups or certain types of training, then take-up rates can be a precondition to measuring the success of the scheme.

As a consequence, the evaluative discussion below only considers information of sufficient quality. As such it is limited to issues of take-up rates, deadweight and displacement; furthermore, the discussion will focus on:

- (a) factors related to cost-effectiveness (such as administrative costs, benefits to SMEs). For most of the cases examined here, effectiveness is assessed from the points of view of the funder (in terms of the costs of running the various schemes and the potential benefits accrued) and the participating enterprise (in terms of whether the various schemes have proved effective for SMEs and of the returns to training for SMEs);
- (b) factors influencing a sustained use of training by SMEs and capturing returns.

3.2.2. Cost-effectiveness for the funding body

For most of the cases examined here, effectiveness is assessed from the points of view of the funder (in terms of the costs of running the various schemes and the potential benefits accrued) and the participating enterprise (in terms of whether the various schemes have proved effective for SMEs and of the returns to training for SMEs).

Cost-effectiveness relates to the costs borne and benefits received by the funding body, which is the public sector in many of the cases explored here. Given the need to ensure efficiency within public funding, one important aspect included in some of the evaluations is the

deadweight effects of the schemes (i.e. is the available funding merely replacing that which SMEs are willing to bear themselves). Other factors include the administrative costs and efficiency of operating the schemes as well as financial probity. The main factors for cost-effectiveness vary according to the nature of the funding body and the mechanism. Deadweight is a more important criteria for cost-effectiveness in publicly funded schemes than in levy schemes, for example.

3.2.2.1. Enterprise size and deadweight

Evidence on deadweight is scarce within the evaluative studies of the cases examined. Measurement is important for the funding provider to be able to analyse the value for money of its expenditure. Taking together the earlier evidence that small and very small enterprises require more assistance than medium-sized and larger enterprises, many of the schemes attempt to minimise deadweight by setting eligibility criteria which favour smaller enterprises. Evidence from the Irish TSS is most interesting, given the changes to the eligibility criteria and the allocation of funds in favour of smaller enterprises. The evaluation cited within the case study was undertaken before many of these changes were made. At the time of the study, the mechanism provided a 65% subsidy to enterprises with less than 50 employees, 40% for enterprises with 51 to 200 employees and 25% for those with 201 to 500 employees (this was already a change from the original subsidy levels). The evaluation cited indicated that more than half of the participants surveyed would have undertaken the training anyway, although enterprises with less than 50 employees responded that the same amount of training would not have been possible. The evaluation concluded that more of the available support should be targeted at smaller enterprises.

The incidence of deadweight was also examined in an evaluation of the British SFTL, which is already targeted at enterprises with less than 50 employees. The evaluation indicated that in 17% of participant SMEs, no training would have occurred within the enterprise if the loan had not been available. A further 34% responded that there would have been less training or it would have occurred over a longer period of time. Some deadweight was identified in that approximately 35% responded that the training would have occurred anyway within the same period, although the researchers could not link deadweight with any specific characteristics such as enterprise size.

3.2.2.2. Sectoral funding and cost-effectiveness

Curran et al. (1999) attribute the lack of clearer targeting within training schemes for SMEs due to their heterogeneity: small enterprises exist in all areas of the economy, face different kinds of markets, use different types of technology and have diverse skills needs in their operations. This diversity may lead to a situation whereby measures are over-general, thus causing deadweight. One potential solution could be to organise funding schemes according to sector, allowing each sector's particular features and needs to be taken into consideration.

Only one of the schemes examined within this report is a sectoral measure: the Dutch metalworking sector scheme. The French EDDF scheme also has a sectoral orientation, the Irish TSS is aimed at certain sectors (although widely defined) and the Swedish growth potential Objective 4 scheme has a stated priority for small public sector health and welfare organisations.

Potentially, however, a sectoral approach may also pose problems. It could be argued that if publicly funded schemes targeted specific sectors, they could harm enterprises in similar sectors. Nevertheless, there are a number of examples of sectoral policies across the EU, some of which are within sectors populated with small enterprises (for example, within the construction sectors of Germany and the UK).

3.2.2.3. Regional funding and cost-effectiveness

Curran et al. (1999) attribute the low take-up rates of schemes in Britain to over-general policies and suggest more locally based measures based on a partnership between local organisations and enterprises. They argue that such an approach could take the different needs of companies into account more effectively. One of the strong points of the Finnish EEDC scheme, for example, is that it is organised regionally, so that decisions are made by those with a close relationship to enterprises. This arrangement has made it possible to take into account regional variations in enterprises' needs. Similarly, a local approach was a specific aim within the operation of the Swedish growth potential Objective 4 scheme, and according to the evaluation, an active regional partnership was achieved (although take-up rates were lower than the original target). Furthermore, both the Basque Hobetuz and the Wallonia voucher schemes are examples of regionally implemented measures. Most of the other measures have a regional/local dimension in terms of their operation: for example, under the French EDDF scheme an agreement can be concluded with regional authorities.

The issue of displacement, however, may be problematic within regionally implemented schemes. The Belgian Wallonia scheme targets SMEs in the French-speaking area liable to VAT. This has raised some criticisms from non-profit-making organisations, from SMEs in the German-speaking part of the region and from training providers outside of the region wishing to be accredited to deliver training under the scheme. Thus, the implementation of regionally based schemes can be questioned if the notion that neither enterprises nor customers necessarily operate solely within their area/region is taken into consideration. To sum up, a local/regional approach may reduce the potential of deadweight in terms of a better fit of the measure to the needs of SMEs, but at the same time it may increase the potential of displacement.

3.2.2.4. A combination of funding methods

As illustrated above, every funding method discussed appears to have certain advantages and disadvantages. Sectoral funding, intended to overcome an over-general approach, might be

harmful to enterprises not receiving any public funds, and regional funding schemes may increase the risk of displacement. A solution would be to introduce schemes which combine these elements, in the sense that policies take into account size, sector and region. One example of this is the Finnish case (EEDC): subsidies are higher for smaller enterprises, the scheme is organised on a regional basis and it can be tailored to the training needs of specific sectors. The French EDDF case is another example of this type of combination. Although numerous advantages are attached to combining these elements into one policy, it is questionable whether this can be realised in each country. The way funding is organised is highly dependent on each country's government organisation and its traditions: the Basque system, for instance, is a result of the government structure of Spain, rather than the result of evidence-based decisions; the Dutch system is based more on a tradition of a sectoral approach to issues than on a rational decision that this approach is indeed the best.

3.2.2.5. *Administrative costs*

The level of administrative costs has not been evaluated within all of the schemes. In the British SFTL, administrative costs were viewed to be low, mainly due to the organisation of the scheme via the private banking sector; on the other hand, criticism was made within the scheme regarding the lack of promotion. Administrative costs served to increase the level of non-grant costs in relation to the Irish TSS, although another reason indicated within the Irish scheme as to why non-grant costs were so high was the case-by-case process for deciding which enterprises would receive support. The Basque Hobetuz case also alludes to the administrative costs of such a decision-making process and raises the point that the role of Hobetuz overlaps with the national scheme operated by Forcem, thereby causing double work and at the same time allowing enterprises to bid for funds from both bodies. This issue is not raised in the same way by any other case, although a general lack of coherency between policies and different bodies is also raised within the British SFTL, whereby criticisms were made as to the number of administrative bodies involved in schemes for small enterprises; since the evaluation, a small business service (a one-stop-shop for advice) has been established.

The advantages of a one-stop-shop approach are indicated in the Finnish EEDC scheme where different services to SMEs under various ministries are combined within one organisation. This can reduce administrative costs, as the same infrastructure for delivering different policy measures is used and SMEs themselves only have to be aware of one organisation to receive information on various measures. Furthermore, tracking various measures can be easier, for example, to ensure that enterprises do not receive double-funding.

In some of the cases, private companies or specialist agencies are authorised to deliver certain measures: Sodexho pass is a private company issuing vouchers within the Wallonia voucher scheme; private banks provide loans to small enterprises within the British SFTL scheme; and Finnvera (State-owned financing company) issues loans to small enterprises within the Finnish BDL scheme.

Another aspect of administrative costs is information and publicity costs. In the British SFTL, the relatively low level of take-up was reported as being at least partly due to the low level of promotion. Similarly, the Finnish EEDC scheme indicated that there was a low level of awareness of the available services among enterprises. On the other hand, the early allocation of the Irish TSS budget reflected the relatively high proportion of the budgetary allocation to marketing and publicity. In the same way, the increased attention given to information campaigns within the metalworking sector training fund in the Netherlands may have contributed to a situation whereby the fund, which was in surplus during the 1980s, now has a higher net expenditure than income. Thus, for a scheme to be successful, its potential clients must be informed about its existence and its potential benefits.

3.2.2.6. *Other indicators of cost-effectiveness*

Other indicators of cost-effectiveness to the funding body are reflected in the benefits reported by enterprises participating in the various schemes. Increased productivity and employment are two such benefits, which also accrue to the funding body in terms of future taxation and reduced social expenditure. None of the case studies consider this in quantitative terms, although the Swedish growth potential Objective 4 scheme, the French EDDF and the British SFTL evaluations all state a positive impact on productivity and/or increased levels of employment (see below). Other social policy aims included within many of the schemes are not specifically evaluated. For example, some schemes include equal opportunity priorities in terms of gender, existing qualification levels and age. Few evaluations report on the impact of the different schemes on such priorities, although monitoring of the Irish TSS indicates that in 1997, 34% of those supported were women and the French EDDF evaluation indicates that people without qualifications did receive training through the scheme.

3.2.3. *Cost-effectiveness and effectiveness for SMEs*

The effectiveness of any scheme for an SME can be evaluated according to its capability in addressing the market failure(s) that an SME faces in relation to access to training. As with the case of cost-effectiveness for the funding body, take-up rate alone is not a sufficient indicator of the effectiveness of the scheme for the applying SME. For example, the Irish TSS is targeted at 4% of SMEs, and each year the budget is fully allocated, whereas in the British SFTL there is a surplus of funds which can be loaned (take-up is approximately 0.03% of eligible enterprises). Furthermore, the Irish TSS and the Swedish growth potential Objective 4 are targeted primarily at enterprises with less than 50 employees, so they are disproportionately represented within the take-up rates. More interestingly, the Finnish EEDC scheme reports that 80%-90% of participants are SMEs with less than 20 employees. Similarly, the British SFTL reports that two-thirds of participating enterprises had five or less employees. In addition, it was the tertiary business sector that participated most in the British SFTL. It would be tempting to draw some conclusions from the effectiveness of various schemes for SMEs according to these figures. The reasons behind different take-up rates

(among different size groups or sectors) may simply lie, however, in the amount of promotion within a scheme in general or towards various target groups. Therefore, take-up rates could be used as an indicator of success of a measure only on the assumption that SMEs are well aware of the availability of such a scheme and will participate in the scheme only if they receive a net benefit in relation to the various monetary and other costs that participation implies. If such an assumption is not made, low take-up rates may indicate that the net benefit for an SME is not high enough. The potential reasons for this are discussed below.

3.2.3.1. Addressing the right market failures

Low take-up rate may be a potential indicator of problems in planning, targeting or delivering the scheme. The measure may address the right market failure only in part, or there may be several market failures which are interrelated in such a way that without solving them all simultaneously, none can be removed. For example, the Dutch scheme registers that the training experience is still below average within the smallest enterprises. This is argued as being due to small enterprises' problems in organising the work so that an employee can be released from the workplace for the training session, as well as to a lack of funds which can be allocated to training. Thus, two market failures occur at the same time (a number of other obstacles which could be interrelated were outlined in Section 1). The Spanish Basque agreement for continuing training offers another perspective on this: it has been stated that the scheme does not assist enterprises enough in identifying their training needs. The same has been recognised within the Finnish BDL: SMEs have difficulties in identifying potential areas of development without expert help. Closely related to recognition of training needs is the planning for training. Many of the schemes studied in the previous section seem to have successfully combined the provision of funding for training with assistance in, or funding for, planning of training. This applies to the Dutch metalworking sector scheme as well as to the Swedish growth potential Objective 4 and the Finnish EDDC. Thus, there is some evidence that many schemes are designed to tackle more than one market failure.

It has been argued in Section 1 that SMEs are not willing to offer training to their employees for fear that they might move to another company immediately after the training. Fear of staff poaching was raised as an obstacle to SMEs to invest in more training in the IKEI (1997) study quoted in Section 1 (Table 11). A solution to this particular barrier may be sectoral targeting of a scheme. The rationale for sectorally based policies in the case of the Netherlands is to ensure that all enterprises within the sector contribute to a fund, thereby ensuring that none of them can benefit from the investment in training undertaken by another enterprise through poaching employees. The same rationale can justify levy systems more generally, whether they operate on a national (e.g. the French levy scheme), regional (e.g. Basque Hobetuz) or sectoral basis. The potential problem of a scheme addressing the wrong market failure includes also the quality of training available, as discussed in the introductory part of this study. For example, Storey (1994) points out that training suppliers may be unaware of the particular problems of SMEs and therefore unable to plan appropriate training packages for them. Within the case studies presented in Section 2, there is some evidence as

to how some schemes have tried to tackle this supply-side problem. For example, the Belgian scheme includes an accreditation system for potential training providers and provides SMEs with guidance in finding a suitable training provider. The Finnish EEDC scheme has been judged relatively effective in ensuring the quality of training, since training is planned especially by those who have a close relationship with enterprises.

3.2.3.2. *Relationship with administrative body and administrative procedure*

This relates to the administrative costs borne by SMEs when applying for a scheme. Within the evaluation of the French EDDF scheme, criticisms included that enterprises with a non-existent relationship with their representative sectoral organisation were at a disadvantage in participating. Similarly, the procedure for applying for a British SFTL differs amongst the participating banks and according to whether or not the applicant enterprise can apply to its main bank for the loan. Criticisms of the Basque agreement for continuing training included the complicated process and the lack of support available to small enterprises in completing the process; for very small enterprises, for example, funding for training is only available for a minimum of 10 participants, and it can be difficult to identify that number of people (coming from different enterprises) with the same training needs. The Belgian Wallonia voucher scheme has specifically tried to make the application process as simple as possible for enterprises.

3.2.3.3. *Maintaining relevance for SMEs*

There is also a risk of alienating SMEs from funding schemes by focusing too much on other objectives, for example, more general employment or educational policy; these could also impact negatively on take-up rates and cost-effectiveness. In other words, potential participants have to see how they can gain benefits from the scheme or receive compensation (in terms of public funding) to fulfil objectives outside of their own direct needs, as is the case with the French *aide au remplacement d'un salarié en formation* and the Portuguese *medida rotação emprego/formação*. The Wallonia voucher scheme evaluation indicates that industrial workers have not benefited from the scheme as much as was wished when it was introduced; at the current time, there are no provisions within the scheme to specifically target this group, although it is questionable whether take-up might be negatively affected if such provisions were introduced.

3.2.3.4. *Is the financial incentive enough?*

All of the above factors impact upon the attractiveness of the scheme to an SME, however defined, and on whether it represents value for money. Another factor is whether the amount of money available is enough of an incentive for the SME to participate. For example, related to the British SFTL, it has been suggested that the available funding may not be tempting enough to raise interest among some enterprises. In one of the evaluative studies, a survey

indicated that a lack of subsidies and/or grants was an inhibiting factor to participating in the loans scheme. Participation rates in the other loans scheme examined here (e.g. the Finnish BDL) were also on the decline. No evaluation has stringently examined why, although within the Finnish case, the introduction of substitute policies has been viewed as having an impact on take-up rates. It is possible to speculate on a number of other reasons why loans may not be attractive, including whether SMEs are willing to pay the market price for training and/or whether a loans scheme can adequately compensate them for the funding obstacles to investing in training as compared to larger enterprises. Furthermore, SMEs may not be sufficiently attracted to the scheme due to its operation, administration and conditions. For example the conditions for acceptable costs of training may be so strict that they do not actually cover those training activities that SMEs find most appropriate (e.g. formal v informal training). Also, application criteria may oblige an SME to present written training plans on an annual basis, which may be more appropriate to large enterprises, thus reducing SMEs' interest in the measure. The reason behind this may be that SMEs, particularly small and very small enterprises, might operate more often in a problem-oriented way, where training is seen as a means to solve existing shortages in employee skills rather than a means to anticipate future shortages that may or may not occur.

3.2.4. Sustained use of training

When assessing the success of funding schemes, the question as to whether they have been able to foster sustained use of training within enterprises by removing various market failures is important. As simple as this may sound, it is a difficult task to handle in practise, not least because it requires a longitudinal study on SMEs' training activities.

Related to this, as stated earlier, one reason to support SMEs is that they cannot take advantage of economies of scale in the provision of training. When a company takes up the available scheme to overcome this barrier, the skill level of their employees probably rises. However, Curran et al. (1999) argue that eventually (especially in very small enterprises) enterprises meet the diseconomies of scale again, hence they are frequently unable to keep up high continuing levels of training. In other words, the effect of any scheme will start to decline. Within the case studies there was scarce information available on the schemes' ability to encourage SMEs to consider training a regular part of their business operations. However, in many of the case studies, the funding scheme has succeeded in increasing enterprises' training provision at least for as long as there has been funding available; the Irish TSS was shown to be effective in this respect, particularly in the case of small enterprises with less than 20 employees (see also the French EDDF and Finnish EEDC schemes). In addition, evaluations of some schemes have reported that enterprises seem to have at least taken steps in the right direction, i.e. the attitudes of employers and/or employees have become more favourable towards training (for example, in the Swedish scheme and the Finnish EEDC).

The French levy scheme, in turn, is an example of a scheme that has not been that successful in activating particularly the smallest enterprises with less than 10 employees. This is argued

as being partly due to the type of training that can be covered by the levy. In France, the levy system has been built up from larger enterprises' viewpoint, which means that it concentrates on formal training activities, whereas it has been argued that smallest enterprises are in need of informal, on-the-job training. As to the British SFTL, there is some concern that the scheme offers only one-time assistance rather than encouraging SMEs to participate in training more systematically. Whether this is due to the nature of the measure, i.e. it is suitable mostly to those enterprises with identified training needs, remains unclear. The Dutch metalworking sector scheme of collective sectoral funds, in turn, has been shown to be effective in that the number of subsidised training days has increased dramatically over the last ten years.

To sum up, although the case studies show few positive signs of sustained use of training, more systematic evaluation and more sophisticated methods are required to explore the effects of any scheme thoroughly.

3.2.5. Returns to training for SMEs

Much of the research quoted in terms of returns to training analysis in Section 1 relates to all enterprises rather than to SMEs as a specific group. Furthermore, the rationales for targeting SMEs as a specific group are often based on observations of their training activities as compared to larger enterprises and the assumption that they require the same level of training investment.

In the introductory chapter, research into the costs and benefits to investment in training was reviewed. The overall tendency appears to be that it has a beneficial influence at individual, enterprise and macro-economic level. In view of the general belief in the benefits to investing in training, the assumption is made that SMEs, via training, will be more able to respond to economic challenges to survive and to be competitive, to the prosperity of their employees and the economy as a whole. Few studies, however, are targeted at analysing the costs and benefits of training for SMEs specifically. Within those studies available, however, one of the contradictory findings is the lack of evidence that investment in continuing vocational training has anything to do with SMEs survival rate or related measures, although individual employees do appear to benefit. SME-specific studies include:

- Sanchez (1998) undertook an econometric analysis linking the incidence of training in SMEs across the EU with their survival rate and performance; no correlation was identified;
- Cosh, Duncan and Hughes (1998) found that the provision of training in SMEs in the UK had little effect on their survival, except for businesses between 10 and 20 employees. They did find a positive relationship between employment and sales growth and the provision of training, although this was only significant within one of the two time frames during which they measured the relationship. The study found 'few consistent signs of a link between training and profitability'.

The question remains why such a weak relationship is found. Westhead and Storey (1997) concluded that there is no evidence from well-conducted research that shows the provision of training will lead ('or is even associated with') a better performance of SMEs. Storey (1994) lists several reasons why it has been difficult to isolate the effects training might have, particularly upon small business performance: (a) supply side problems, i.e. low quality of available training courses; (b) the vast array of different types of training (in terms of duration, suppliers, etc.) making it difficult to separate the possibly effective courses from the non-effective. Furthermore, SMEs are of different size, as has been discussed earlier, they operate in numerous branches and markets and they use very different kinds of technology, etc. (see e.g. Curran et al. 1999), making it challenging to control all these variables when analysing the effects of training on SMEs' performance. In addition, the EU definition of SMEs is very recent, which means that there are little SME-specific data: this was one of the major problems encountered in the research by Sanchez (1998).

A number of the other studies recording the obstacles to SME investment in training also cite a lack of need for training. In a multinational survey (IKEI, 1997) presented in the first part of this report, one of the most common reasons for the decision not to train was that SMEs considered they had no need for training (see Table 11). Similarly, in a survey conducted among the metalworking sector in the Netherlands (see the Dutch case study), a considerable number of employers thought that training is unnecessary (or employees have to do training in their own time). Neither study, however, gives any insight into why SMEs think they are not in need of training. How far this response refers to 'ignorance' of the potential benefits of training on the part of SMEs, rather than to their real 'need' for training, is debatable.

One reason why SMEs may not be benefiting from training (or may not be willing to train their employees) may also lie in the type of training subsidised/supported by the various schemes. It has been suggested that SMEs may not be in need of formal training to the same extent as larger enterprises, but instead may find informal training more appropriate to their purposes. Some of the research cited in Section 1 and the evaluations draw attention to the forms of training preferred by SMEs and whether or not the schemes account for these preferences. The evidence presented in Section 1, from the continuing vocational training survey (European Commission, 1999), does support the notion that SMEs that provide training favour external courses, partly due to a lack of internal resources to plan and provide training (see Tables 6 and 7). On the other hand, when the percentage of employees undertaking training (within SMEs that provide training) is broken down into different forms of training, there are higher participation rates in more informal forms of training (see Table 8). Westhead and Storey (1997) and Storey (1994) confirm that informal training is of greater value to small enterprises than formal, qualifications-oriented training. Only a few cases particularly refer to the issues of informal and internal training opportunities and provision; for example, the French levy scheme evaluation by Céreq (1996), examining why small enterprises do not take more advantage of the available investment, identified as one of the major factors that small enterprises feel the best way to learn is through 'doing'.

Furthermore, some questions were raised in the Basque Hobetuz case on the criteria for distributing funds (e.g. on formal training only or for a minimum number of employees), which could act as a disincentive to small enterprises to take full advantage of the schemes. Thus, according to the case studies there is some evidence to suggest that SMEs may benefit (or at least the cost implications are lower) particularly from informal training.

Further, a number of schemes include other criteria: minimum length of a course, whether it should be within working hours and how it should be related to the aims of the enterprise. Take-up evaluations which included training types showed a variety of choices: half of the vouchers used within the Wallonia voucher scheme were for language training; within the Irish training support scheme, most training was management-related; information technology courses were popular within both the Wallonia voucher scheme and the British small firms training loan. One of the reasons given for the popularity of the Belgian Wallonia voucher and the Irish TSS has been the ability of small enterprises to choose freely which kind of training best suits their needs.

Part of the problem with trying to analyse enterprise training needs in terms of internal/external and formal/informal is that the distinctions are not always clear. On the latter, part of the challenge relates to separating work from training. Westhead and Storey (1997) indicate that the amount of training taking place within small enterprises may be underestimated due to a focus on formal training and the inability to measure informal training. A further difficulty relates to the design of equitable measures which underpin the principle of financial probity in allocating funds. The easiest way is to allocate them on the basis of a tangible outcome, for example, a qualification, attendance at an external course, etc. To link funds to internal, informal types of training may require more monitoring of how funds are being spent and a greater administrative burden.

Finally, some findings within the case studies can contribute to discussions on benefits of (formal) training to SMEs. A number of evaluative surveys of the cases considered within Section 2 do indicate that SMEs, however defined, have accrued benefits from participating in the various schemes. These benefits have ranged from increased staff motivation to increased productivity. The evaluation of the French EDDF in the Loire region indicated that participating enterprises had improved the work environment, turnover, productivity and employment levels. An evaluation of the Swedish growth potential Objective 4 scheme indicated that 20% of participating SMEs had recruited new staff through the developmental effect of training and that staff dismissals had been reduced. Of participants surveyed in an evaluation of the British small firms training loan, 94% indicated they were able to achieve most or all of their aims, including: to increase productivity, develop new products, cope with business restructuring or meet health and safety requirements. All these benefits, however, are cited from the point of view of SMEs who have participated in the various schemes; within the French levy case study, evidence cited from Goux et al. (1998) suggests that very small enterprises treat the levy scheme like a tax, i.e., they pay their contribution but do not invest in training.

3.3. Conclusions

This study has reviewed research illustrating the various rationales for implementing funding schemes targeted at continuing training activities within SMEs and has presented examples of different kinds of schemes that operate within the EU and their potential strengths and weaknesses. Section 1 discussed the importance of SMEs to the economy and society as a whole and the benefits of training to enterprises in general; it concluded with a discussion on various market failures that may prevent SMEs from investing in continuing training. Section 2 presented several case studies of funding schemes available to SMEs and included information on the policy background, the rationale for the scheme, its operation and any evaluative material. Within Section 3, the case studies have been summarised and discussed according to their effectiveness for participating SMEs and the funding body.

When analysing the various schemes presented, it is difficult to conclude that any one scheme is more effective than another, although the lack of stringent evaluation according to similar criteria makes comparison problematic. Instead, each scheme has its own strong points as well as limitations that could be addressed through various alterations. Many of the schemes have taken on board criticisms and are making changes to them. Certain factors, however, do seem to impact on the degree of success of the measures:

- the need to address more than one obstacle/market failure; for example, by including the process of planning training needs within the scheme;
- linked to above is the coordination of various SME support schemes (whether of training or other business development issues). One way to achieve this is through so-called one-stop-shops: this kind of organisation may both lower the administrative costs attached to various schemes and foster enterprises' access to information on different funding possibilities available;
- there is evidence to suggest that the SME sector should be divided into smaller segments; in particular, the smallest enterprises with less than 20 or 10 employees may be in need of careful attention. The potential for deadweight seems to be lowest when the smallest enterprises are targeted;
- flexibility is key to many of the schemes in terms of prioritising support for small and very small enterprises, as well as of having local/regional organisational arrangements that can deal with sectoral as well as regional/local needs. Also important is that due consideration be given to equity and the impact on competitiveness for enterprises which may be excluded and whose competitiveness may be harmed. Flexibility also relates to the type of training supported through the various measures: informal and/or internal training may be more convenient and relevant to the training needs of smaller enterprises;
- the success of any scheme depends on its promotion and its provision of information and advice;
- as simple and objective an application and regulation procedure as possible;

- many measures seem to have wider social aims; but to capture and maintain an enterprise's interest, they should also have some concrete and quickly realisable benefits to the applicant;
- control over the quality of training may be required: either a formal accreditation system of training providers or some other monitoring arrangement;
- finally, it is notable from the case studies presented in this report that systematic evaluation studies are crucial tools for learning about the measures and identifying more precisely their effectiveness and their faults.

Concerning the final point, the lack of research and the general lack of information on SMEs as a specific group, as well as on the impact on SMEs of different types and forms of training, make any detailed conclusions difficult. For example, if it is true that small firms favour and benefit more from informal in comparison to formal training, then this needs to receive more attention in surveys and studies. Currently, however, rather than identifying the needs of SMEs themselves, many assumptions are made about SMEs' training activities and needs in relation to large enterprises. Furthermore, research into the returns on different types and forms of enterprise training within SMEs (specifically at the enterprise and individual levels) may clarify the relative importance of training compared to other factors in SME development. In addition, given the numerical domination of SMEs within all EU economies and their importance for employment, more research into their economic impact could clarify how they should be supported. For example, it may be that the prime reason to promote training within SMEs is to ensure that individuals are not at a labour market disadvantage through the SMEs' inability to offer general training in the same way that larger enterprises do. More coordinated and in-depth research could be of use to policy-makers in establishing funding responsibilities and designing programmes to foster SME development, especially within the smaller-sized categories.

Abbreviations and acronyms

BDL	Business development loan.
Cedefop	European Centre for the Development of Vocational Training.
Céreq	<i>Centre d'Etudes et de Recherches sur les Qualifications.</i>
DfEE	Department for Education and Employment.
DRTEFP	<i>Direction Régionale du Travail, de l'Emploi et de la Formation Professionnelle</i> (Regional Directorate of Work, Employment, and Vocational Training, a regional subsidiary of the central government ministry).
DDTEFP	<i>Direction Départementale du Travail, de l'Emploi et de la Formation Professionnelle</i> (Departmental Directorate of Work, Employment, and Vocational Training, a regional subsidiary of the central government ministry).
EEDC	Employment and economic development centres.
EDDF	<i>Engagement de développement de la formation</i> (Agreements for the development of vocational training).
ENSR	European network for SME research.
ESF	European Social Fund.
Eurostat	Statistical Office of the European Communities.
FAS	Training and Employment Authority, Ireland.
Finnvera	Finnish Export Credit Guarantee Agency and Domestic Specialised Risk Financier.
FOREM	Walloon vocational training and employment service (<i>Office Wallon de la Formation professionnelle et de l'Emploi</i>).
Hobetuz	Basque foundation for continuing training.
IiP	Investors in people.
IKEI	Basque Institute for Studies and Research.
NCMV	<i>Nationaal Christelijk Middenstand Verbond</i> (Belgian employers' organisation for SMEs).
SFTL	Small firms training loan.
SMEs	small and medium-sized enterprises.
TSS	Training support scheme.
VDAB	Flemish employment and vocational training service (<i>Vlaamse Dienst voor Arbeidsbemiddeling en Beroepsopleiding</i>).
VET	vocational education and training.
Vlamivorm	Flanders must invest more in training (<i>Vlaanderen moet meer investeren in vorming</i>).

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Funding continuing training in small and medium-sized enterprises: Discussion and case studies from across the EU

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Small and medium-sized enterprises (SMEs) form a significant part of all EU Member State economies. Growing recognition of their importance has led to introducing several measures at both EU and Member State levels to harness and improve their competitiveness. One area that has gained attention is their ability to provide and participate in continuing training. In the European Commission's white paper *Growth, competitiveness and employment: the challenges and ways forward into the 21st century* (1993), Member States were encouraged to give 'particular attention...to the continuing training of staff in small and medium-sized enterprises' (p. 138). This study focuses on the different measures introduced within Member States and how they are financed.

The first section of this report focuses on the importance of funding training in SMEs and highlights the various funding available. The second section explains how various schemes work in the EU. The third section discusses the findings in Sections 1 and 2 and provides a summary of the main descriptive characteristics of these different funding schemes and the available evaluative indicators.

The report outlines current funding schemes, their operation and results in various settings. It also reviews research undertaken and clarifies some fundamental issues involving the effective funding of continuing training in SMEs.

Tommi Pukkinen
Clemens Romijn
Sarah Elson-Rogers

Funding continuing training in small and medium-sized enterprises

Discussion and case studies
from across the EU



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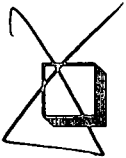


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